Bloomberg

Citigroup Sues to Block Arbitration of Saudi Investors' Claim

By Karen Gullo
October 06, 2011 0:01 AM EDT

A Citigroup Inc. (C) unit sued two Saudi investors seeking to block Financial Industry Regulatory Authority arbitration of their $383 million claim that the bank "wiped out" their family's wealth.

Abdullah and Ghazi Abbar, a father and son from Jeddah who put family money into hedge funds, have no customer agreements or accounts with Citigroup Global Markets Inc., a New York-based broker dealer that they blame for mismanaging their family's life savings, according to a complaint the Citigroup unit filed yesterday in federal court in Manhattan.

The Citigroup entities that handled two leveraged option transactions and a private-equity loan for the Abbars are based in the U.K., Switzerland and the Cayman Islands and aren't subject to arbitration by Finra, a Washington-based brokerage regulator, according to the complaint.

"We are confident this matter will be appropriately resolved when it is reviewed by legal authorities in the jurisdictions that the parties agreed to when they executed their trades," Natalie Marin, a spokeswoman for New York-based Citigroup, said in an e-mail.

John Rich, an attorney for the Abbars, didn't immediately return a voice-mail message left after regular business hours seeking comment on the lawsuit.

The Abbars, whose money comes from food products importing, travel and tourism, oil investments and other businesses, were courted by top bank officers, including Chief Executive Officer Vikram Pandit and former global wealth management chief Sallie Krawcheck, to maintain or expand business with the New York- based company, they said in their Finra claim.

'Gross Misconduct'

"Due to a pattern of gross misconduct by CGMI and its employees and affiliates, from late 2005 to present, the considerable family wealth which the Abbars entrusted to Citigroup has been virtually wiped out," the Abbars said in the claim they filed with Finra on Aug. 17.

The Abbars said their family was lured to Citigroup in 2006 after their Deutsche Bank AG banker moved to Citi Private Bank Geneva. The Abbars put $343 million of their hedge fund investment assets into a leveraged option swap transaction to which Citigroup's London affiliate was a last-minute counterparty, a move designed to shield the bank from U.S. regulatory and legal obligations, according to the claim.

Voting Shares

As part of the hedge-fund financing transaction, Citigroup Global Markets had all the voting shares of the entities that held the family's investments. The bank failed to monitor the investments, which became over-leveraged and totally collapsed in late 2008 when the full force of the financial crisis hit, the Abbars alleged.

"Citigroup took over management of the remaining positions in the hedge fund portfolio and put in place a program for redeeming the entire portfolio," they said in the Finra claim. "Citigroup will unjustly benefit in the amount of approximately $70 million from redemption of such investments after repayment of the loan and interest."

The Abbars also set up a credit facility with Citigroup under Cayman law providing for loans of as much as $110 million and were persuaded to use the facility to invest in bank-related private-equity investments. The Citigroup entities involved in the day to day management of the credit deal "were ultimately responsible" to Finra-registered personnel in New York, they said in the claim. They said the credit structure eventually collapsed because of borrowings related to the Citigroup investments.

The Abbars seek damages of $147 million in connection with a credit facility that was set up to pay for capital calls in the family's private-equity investments. They are also seeking $198 million tied to the hedge fund transaction and recovery of $38 million they injected into the Citigroup deals, according to their claim.

The case is Citigroup Global Markets v. Abbar, 11-6993, U.S. District Court, Southern District of New York (Manhattan).

To contact the reporter on this story: Karen Gullo in San Francisco at kgullo@bloomberg.net

To contact the editor responsible for this story: Michael Hytha at mhytha@bloomberg.net