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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

June 24, 1987

The Honorable Donald W. Riegler, Jr.
Chairman
Subcommittee on Securities
SD 534
Washington, D.C. 20510

Dear Senator Riegler:

On June 8, 1987, I chaired a hearing of the Senate Caucus on International Narcotics Control in New York City. Senator DeConcini and I heard testimony at that hearing from numerous witnesses, including Rudolph Giuliani, the U.S. Attorney for the Southern District of New York, and members of his staff.

U.S. Attorney Giuliani and his staff raised a number of important issues that the Securities Subcommittee should pursue and develop through a preliminary investigation and subsequent hearings. The central issue is the adequacy of the mechanisms that domestic financial institutions employ to deter and uncover the laundering of drug proceeds.

While much of the testimony at the June 8 hearing concerns one particular case (discussed below), our inquiry should be more extensive. We need to learn how widespread the problems uncovered by the U.S. Attorney are, and whether additional legislation is needed to prevent their repetition. Mr. Giuliani has indicated his willingness to assist the Subcommittee in this work.

The June 8 hearing focused on the so-called "Pizza Connection" case (United States v. Badalamenti, et al.). The 17-month trial in this case ended on March 2, 1987, with the convictions of eighteen defendants who were responsible for the shipment of over 4,000 pounds of morphine base and heroin into this country, and the laundering of at least \$60,000,000 in narcotics cash proceeds. These defendants were sentenced this week to lengthy prison terms and very substantial fines and orders of restitution.

At the hearing, Senator DeConcini and I were shocked to learn of an alleged incident in October 1982 involving the money laundering operations of the Badalamenti drug conspiracy.

Testimony received at the hearing indicated that in March 1982, the defendants opened an account at Merrill Lynch in New York City, where they deposited \$4.9 million in cash in a 60-day period. Both the manner and the denominations (\$5's, \$10's and \$20's) of those deposits caused Merrill Lynch officials to become suspicious. Merrill Lynch promptly notified the FBI and told the customer, co-conspirator Franco Della Torre, to close the account.

Notwithstanding the closing of the Merrill Lynch account, the testimony continued, Della Torre was directed by the defendants in Switzerland to reestablish the same accounts (TRAEX, SA and Acacias) at an E.F. Hutton and Company ("Hutton") office in New York City. From April through September 1982, Della Torre delivered over \$15.9 million in cash to Hutton. Della Torre made these deposits from suitcases stuffed with millions of dollars in small denomination bills.

These highly irregular deposits were received in a manner that was without precedent in the normal course of business of Hutton. The senior account executive in charge of Della Torre's deposits at Hutton was Arnold Phelan, who continues to be a high ranking official of Hutton.

Questions surrounding the handling of this account, especially the disposition and closing of it, the notification to Della Torre that the FBI was investigating him, and the receipt and transfer of a valuable gold watch that Della Torre gave Mr. Phelan, continue to be unresolved. Particularly disturbing to the U.S. Attorney is the possibility that the FBI investigation of this organized crime money laundering scheme was hindered by actions attributed to Mr. Phelan.

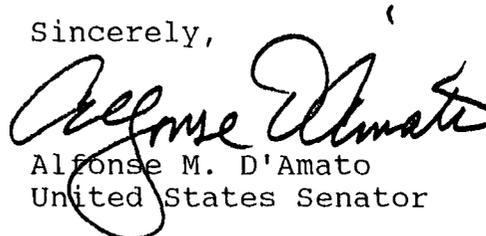
These events may provide a useful example of other evasions of currency laws and regulations, the misuse of legitimate channels of commerce for illegal purposes, and the need for additional legislation, regulations, or industry standards to prevent their repetition.

Given the seriousness of this matter, I strongly recommend that the Securities Subcommittee of the Banking Committee conduct a preliminary investigation into the conduct of Mr. Phelan, Hutton and its officers, and their impact upon the Government's investigation in Badalamenti.

I further recommend an examination of the misuse of other American financial institutions as conduits for illegally derived funds, nationally and internationally.

Please let me know if there is any additional information that you require. I look forward to discussing this matter with you personally.

Sincerely,

A handwritten signature in black ink, appearing to read "Alfonse D'Amato". The signature is written in a cursive style with a large, looping initial "A".

Alfonse M. D'Amato
United States Senator

cc: Thomas J. Lykos
Minority Counsel
Securities Subcommittee