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Morgan Stanley and Interactive Brokers Face Federal Scrutiny in Venezuela Probe

U.S. trading giants and financial advisers handled more than $100 million in suspicious money; a whistleblower complaint brought increased attention

Petróleos de Venezuela, S.A., or PDVSA, is the Venezuelan state oil company.

PHOTO: ISAAC URRUTIA/REUTERS

By Ian Talley

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Federal authorities are scrutinizing two U.S. trading giants and the financial advisers who handled the accounts of a businessman under investigation for allegedly helping a former Venezuelan oil minister launder billions of dollars, according to people familiar with the matter.

Morgan Stanley, Interactive Brokers LLC and several financial advisory firms managed large-sum accounts for Venezuelan businessman Luis Mariano Rodriguez Cabello, who is under investigation for his role in allegedly helping conceal some of the $2 billion in question within the U.S. financial system for his cousin, former Venezuelan oil minister Rafael Ramírez, according to the people as well as government documents reviewed by The Wall Street Journal.

U.S. and international agencies are examining whether Mr. Rodriguez helped Mr. Ramírez amass funds from Venezuelan state accounts through fraudulent insurance contracts with the country's national oil company, and then laundered the money through overseas accounts, including in the U.S., according to the people and the documents.

As part of the investigations, the Federal Bureau of Investigation, the Securities and Exchange Commission and other federal agencies are trying to determine why U.S. firms managed more than $100 million in securities and other assets for Mr. Rodriguez when the accounts displayed what authorities have listed as red flags for potential money-laundering activities, according to the people familiar with the matter.

These red flags include previous scrutiny from regulatory and enforcement officials and the fact that the source of the funds was Venezuela, which has been classified for more than a decade by the U.S. government as a high-risk jurisdiction for money laundering.

Federal banking laws require brokerages and other financial institutions to prevent their businesses being used for illicit purposes by vetting their customers and their customers' relationships and by assessing customers' funds and transactions, largely based on criteria detailed and distributed by the government.

Rafael Ramírez, shown in 2016, represented Caracas at the United Nations until 2017.

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The rules provide institutions with latitude in assessing risks, and so allow for new customers or accounts that may bear some degree of risk. Failure to detect, report and prevent money laundering exposes banks and brokerages to civil penalties and criminal charges, even if investigators determine an institution didn't know about illicit activity, but should have.

Messrs. Rodriguez and Ramírez haven't been charged in the U.S. with any violation. Morgan Stanley and Interactive Brokers, as well as Mr. Rodriguez's financial advisers, haven't been accused by the government of wrongdoing.

The SEC and the FBI declined to comment. Morgan Stanley declined to comment. Interactive Brokers LLC said it "is committed to compliance with all applicable laws and regulations. We cannot comment on specific customers or accounts."

Neither Messrs. Rodriguez and Ramírez responded to requests for comment made through their companies and business associates. Mr. Ramírez, the former oil minister, has dismissed the accusations as unsubstantiated and politically motivated.

Mr. Ramírez served as head of Petróleos de Venezuela, S.A., or PDVSA, and then energy minister under the late President Hugo Chávez and his successor, Nicolás Maduro, and represented Caracas at the United Nations until 2017, when Mr. Maduro accused him and several associates of corruption. Former U.S. officials say those accusations, whether true or not, are a diversion from domestic political turmoil and criminal charges against Mr. Maduro by Washington and other governments. Mr. Maduro, in turn, has said the U.S. allegations are lies and are meant to oust him from office.

PDVSA officials have long dismissed allegations of corruption involving the conglomerate. Several former executives and associates of the firm have been convicted or pleaded guilty in the U.S. on charges related to the misuse of funds.

Former U.S. officials and financial security analysts say the Rodriguez probe highlights critical shortcomings in a U.S. finance and regulatory system that relies heavily on financial institutions to police the system against fraud.

While a whistleblower complaint filed with the SEC in 2019 sparked interest in the roles played by the financial firms in Mr. Rodriguez's activities, the investigation's origins stretch back nearly a decade.

Mr. Rodriguez was one of several men, including Mr. Ramírez, who was accused by prosecutors and a court in the European principality of Andorra in 2012 of using Banca Privada D'Andorra, or BPA, to launder $2 billion allegedly gained through fraudulent insurance contracts with the national oil firm, PDVSA. U.S. officials say Venezuelan officials approved inflated contracts with business associates to insure energy projects, dividing the proceeds. Mr. Ramírez has disputed the allegations and an attorney for Mr.

Rodriguez and other defendants has denied money-laundering accusations. The case in Andorra is still pending.

The alleged money-laundering scheme in Andorra was among justifications cited for U.S. Treasury Department sanctions against BPA in 2015. That penalty has since been lifted, although the action forced the bank into dissolution.

Those allegations should have deterred U.S. financial institutions from managing Mr. Rodriguez's accounts, say anti-money-laundering compliance officers and former Treasury officials.

The Venezuelans' funds at BPA were frozen by the Andorran court, but $200 million was released, according to a November 2016 Treasury intelligence report, a copy of which was reviewed by the Journal. Soon after, Mr. Rodriguez and several of his associates transferred $107.5 million to his corporate account at Morgan Stanley, according to the intelligence report.

Morgan Stanley came to suspect those funds—received in 15 wire transfers between October 2014 and November 2015—were from the released BPA funds, according to the report.

Mr. Rodriguez moved the account from Morgan Stanley in 2017, placing it with Capital Guardian Wealth Management, a U.S. brokerage partly owned by a French businessman and longtime associate of Mr. Rodriguez, Jean François de Clermont-Tonnerre, according to some of the people and financial and corporate records.

In 2018, Capital Guardian was expelled from Finra, the financial industry's self-regulatory authority, for failing to pay a $125,000 fine levied for facilitating what Finra called suspicious Venezuelan transactions in a case separate from the Rodriguez investigation. Expulsion meant the firm lost its license to provide brokerage services.

Mr. de Clermont-Tonnerre contracted with Interactive Brokers, the largest online brokerage in the U.S., to manage Mr. Rodriguez's corporate account, according to those people and the records.

A spokesman for Mr. de Clermont-Tonnerre said the French businessman "is not aware that (Mr. Rodriguez) is laundering money" and said he and his firms hadn't violated any laws.

Federal investigators are exploring why Interactive Brokers, the largest online brokerage in the nation, took on the account despite mounting red flags, people familiar with the matter said.

They also are probing the role of Capital Guardian, its owners and a successor financial advisory firm, Avenir Private Advisors, according to several of the people familiar with the matter.

Mark Coffey, who served as a compliance officer for Capital Guardian and Avenir, filed a whistleblower complaint with the SEC in 2019 following an internal investigation, said two lawyers representing him, Phil Brewster and Patrick Mincey.

In his complaint, Mr. Coffey provided financial statements, emails, texts, corporate records and other evidence that he says document multiple violations of federal anti-fraud securities laws.

Justin Lowe, founder and CEO of Avenir, said the SEC conducted a six-month review of the company last year, but "there were no issues of substance" and that his firms didn't violate any laws.

Shortly after the SEC review, the U.S. regulator recorded the firm's registration status as terminated, meaning that it could no longer act as a financial adviser.

Mr. Coffey said he raised early concerns with the owners of the financial advisory firm handling the account in 2019, Avenir Private Advisors, about fees Mr. Rodriguez paid to his financial advisers that were two-to-three times market rates for the size of his account.

Around the time Mr. Coffey began asking questions about activities he found suspicious about the account, the owners of the financial advisory firm began liquidating the remaining $70 million in Mr. Rodriguez's corporate account at Interactive Brokers.

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