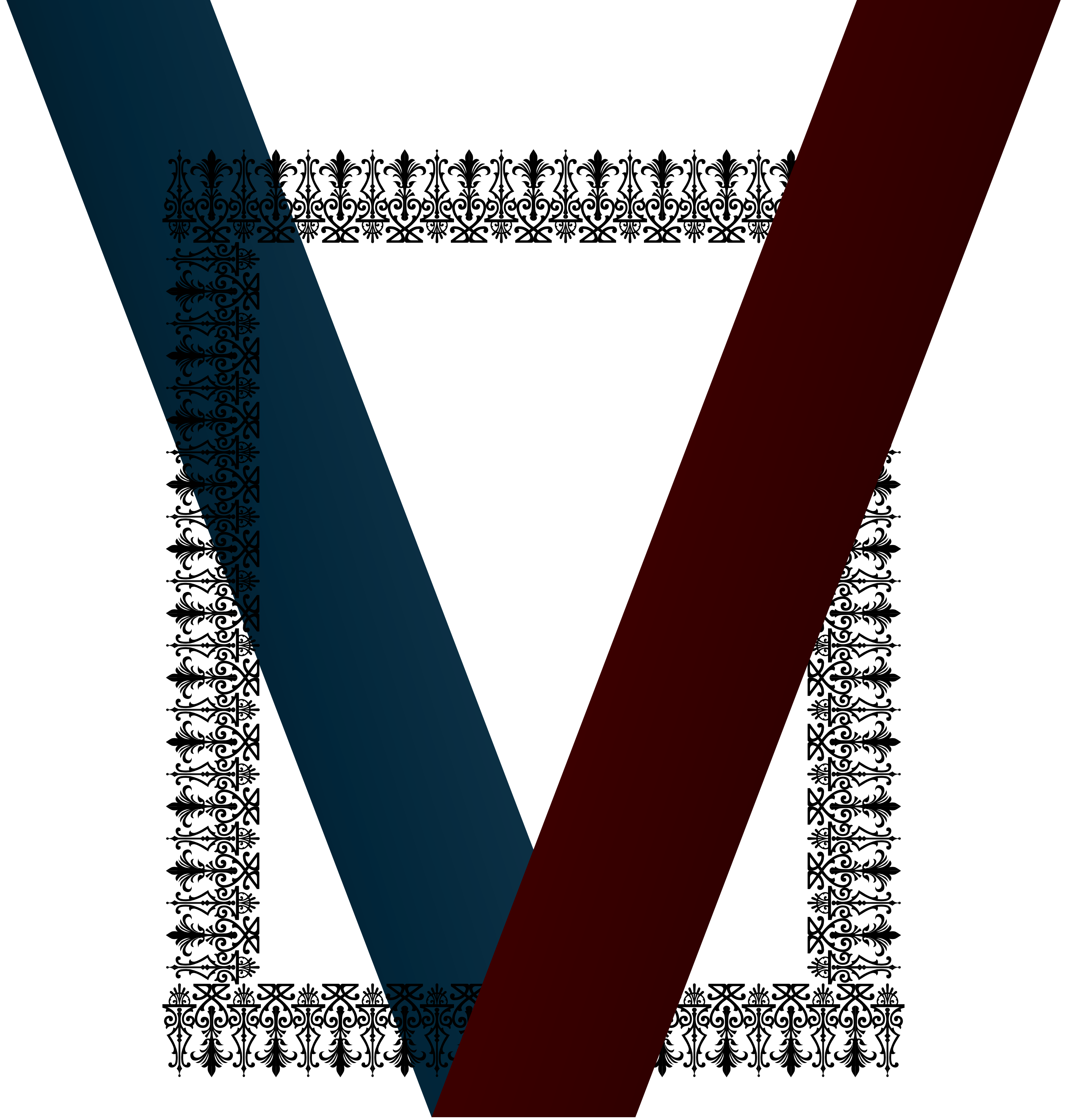
VINCENT TCHENGUIZ

PHOTOGRAPH BY DANIEL STIER



OUT FOR VENGEANCE

BY EDWARD ROBINSON

U.K. property magnates **Vincent** and **Robert Tchenguiz** have launched a £300 million legal attack on the Serious Fraud Office after it bungled an investigation into their dealings with a failed Icelandic bank.

It's a Wednesday night in London, and Vincent Tchenguiz, the biggest owner of residential real estate units in the U.K., is getting wound up about the criminal case that paralyzed his business and threatened to land him in prison.

With his necktie dangling from his collar, Tchenguiz is seated at a surfboard-sized desk in his office overlooking Hyde Park. More than a dozen wall-mounted flat-screen TVs track stocks and currencies, and a $517,000 psychedelic skull created by Damien Hirst stares vacantly from a pedestal in the corner. As Tchenguiz describes how he's turning the tables on British prosecutors that tried, and failed, to nail him for fraud, a smile breaks across his apple-shaped face. "They wanted to get some scalps," says Tchenguiz, 57, brandishing a pen in his right hand like a baton. "And now I'm going to butcher them."

Tchenguiz has launched an unprecedented legal assault on the Serious Fraud Office, one of the top agencies for prosecuting white-collar crime in the U.K. After the SFO's investigation of Tchenguiz's dealings with an Icelandic bank fell apart last year, he accused the office of malicious prosecution and false imprisonment in a lawsuit filed in the High Court in London in December. Tchenguiz, who was arrested on suspicion of fraud in 2011, is seeking damages of 200 million pounds ($313 million). And his younger brother, Robert, 52, who was also arrested, filed a similar suit, asking for £100 million. In July 2012, the High Court ruled that the SFO, under former director Richard Alderman, had misrepresented key facts in the case and directed the SFO to pay Vincent's £3 million legal bill. The agency isn't appealing the decision.

The SFO has denied the brothers' allegations in court papers. Alderman, who completed his four-year term as SFO director in April 2012, and his successor, David Green, declined to comment for this story.

No one has ever filed a legal action of this magnitude against the 25-year-old agency. If the brothers win their cases, which are set to be heard jointly in a trial beginning in May 2014, the damages could amount to almost 10 times the SFO's annual budget of £32 million. "It's been a high-profile disaster," says Edward de la Billiere, a regulatory lawyer at London-based Prospect Law Ltd. "Its reputation has definitely been tarnished."

The legal challenge comes as the SFO pursues a criminal inquiry into the Libor scandal. UBS AG and other lenders were fined $2.8 billion after regulators in the U.S. and U.K. found that their traders rigged the London interbank offered rate. On June 18, the SFO charged Tom Hayes, a former trader at Citigroup Inc. and UBS, with eight counts of conspiracy to defraud. Lydia Jonson, Hayes's lawyer, declined to comment.

The brothers' story is rooted in the clash between Iceland and the U.K. after the Nordic nation's top two banks failed in October 2008 during the global credit crisis and were nationalized. British municipalities, charities and individuals had plowed more than £8 billion into high-interest-rate accounts at Kaupthing Bank hf and Landsbanki Islands hf. As depositors grew concerned that their savings would be lost, then–Prime Minister Gordon Brown criticized Iceland for not guaranteeing its banks would honor its obligations to British customers. Brown's government froze the Icelandic lenders' U.K.-based assets. "Some people had their life savings in these accounts, and they were afraid they were going to be wiped out," says Richard Carter, a depositor in Kaupthing's subsidiary on the Isle of Man and the spokesman for a pensioners' group that recovered 91 percent of the deposits.

Alderman lacked the jurisdiction to take on the Icelandic banks directly. He did have the authority to look into the activities of the banks' British borrowers. In 2009, he directed his office to investigate how the Tchenguiz brothers had managed to borrow £700 million from Kaupthing even as it was struggling to survive in 2008. Grant Thornton UK LLP, a London-based accounting and consulting firm that was liquidating assets on behalf of Kaupthing's insolvency committee, notified the SFO in 2009 and 2010 that the brothers' dealings with the bank warranted investigation, court records show. And Grant Thornton shared

Richard Alderman, the former Serious Fraud Office director, launched a probe into the Tchenguizes.

ALEX GRIFFITHS/BLOOMBERG

DAVE M. BENETT/GETTY IMAGES

Robert and his sister, **Lisa Tchenguiz**, enjoy a party at the Serpentine Gallery in London.

information from its own review of the bank's finances with the agency's investigators, the records show.

Alderman saw a powerful case to present to a jury: two wealthy brothers who he suspected had used fraud to escape Kaupthing's fall while pensioners suffered losses, according to a person familiar with the SFO's probe.

On a sunny spring afternoon, Vincent Tchenguiz, who likes to talk about himself, is plotting his counterattack at his regular table at Le Club 55, an open-air eatery on the beach near St. Tropez, France. Tchenguiz berths his 130-foot (40-meter) yacht *Veni Vidi Vici*—I came, I saw, I conquered—in the marina of this village on the Cote d'Azur. As waiters set down platters of grilled sea bass and silver buckets of chilled rose for Tchenguiz and his 10 guests, friends stop by to say hello. "That guy designed a swap for me with an 80-year term," Tchenguiz says of one well-wisher. "He was a banker at Merrill Lynch, but now he works for the Russians."

Tchenguiz should be savoring this Mediterranean moment. All he has to do after lunch is stop by a shipyard to complete his purchase of a $1.2 million cigarette boat that goes 130 miles (210 kilometers) per hour. But as he peels the leaves off a steamed artichoke, he's fixated on the damage he says the SFO and Grant Thornton inflicted on his business and reputation. Tchenguiz says he hopes his case yields information that shows how the accounting firm influenced the investigation of him and his brother. "The criminal angle was just another tool in GT's armory," Tchenguiz says of the firm.

Grant Thornton, which isn't a defendant in the Tchenguizes' lawsuits, says it acted appropriately in the SFO's probe of the brothers. "It is the responsibility of the investigating agency to review and interpret any information provided to it," Wendy Watherston, a spokeswoman for Grant Thornton, wrote in an e-mail. "Grant Thornton did not act as adviser to the Serious Fraud Office."

Vincent and Robert Tchenguiz, together with their sister, Lisa, had a privileged upbringing in Tehran. Their father, Victor, an Iraqi Jew who emigrated from Baghdad to Iran in 1946, went on to be the crown jeweler for Shah Mohammad Reza Pahlavi.

In 1978, Vincent's father staked him $500,000, and he bet it all on gold and silver futures. He wound up netting $2 million when precious metals soared in a rally in 1979 and 1980. By then, he had settled in London after earning a Master of Business Administration degree from New York University. His family left Iran shortly before Ayatollah Ruhollah Khomeini overthrew the shah in 1979.

In the mid-1980s, Tchenguiz traded currencies and commodities at Shearson Lehman Brothers Inc. He joined Robert in a real estate venture called Rotch Property Group Ltd. in 1988. They started buying office buildings whose tenants were government agencies, which posed virtually no risk of missing a rent payment. Rather than pocket the rental revenue, the brothers securitized the cash flow and sold it to pension fund managers who wanted low-risk income for annuities and similar offerings.

In 1992, Rotch paid £45 million for a two-building complex in Croydon, a borough in south London, that housed the secretary of state for the environment. The next year, Rotch sold the rental income to Clerical & Medical Investment Group Ltd., a London-based pension management firm, for £50 million. And in 2006, Rotch sold the buildings for an additional £96 million.

The Tchenguizes replicated this strategy during the next decade and leveraged their properties by securitizing the rental income and reinvesting the upfront cash in more assets. In 2002, they and their partners acquired Shell-Mex House, a 12-story art deco masterpiece overlooking the Thames. And Vincent amassed 248,000 so-called freeholds—residences in which he owned the buildings and land. Dating back to feudalism, this quirk in British real estate didn't give Vincent actual control over the residences. Yet he was entitled to collect £50 million in annual ground rent from mortgage buyers who acquired just the right to lease the residences for decades. "It's a clever strategy because institutional investors are looking for secure long-term cash flows," says Chris Wagstaff, a trustee director at an £8 billion pension fund managed by Aviva Plc, a London-based insurer. "Ground rents is one of the few assets that does that for 75 or 80 years."

The brothers' real estate empire was worth about £4 billion at its peak in early 2007. British newspapers chronicled how Vincent, who's never been married, reveled in his wealth in the years before the credit market collapsed in 2008. They published photographs of him flanked by attractive women at lavish parties he hosted on his yacht. And he became a fixture at Annabel's, a private nightclub in Mayfair.

From 2004 to mid-2007, companies and trusts controlled by Robert borrowed more than £1 billion from Iceland's Kaupthing to acquire stakes in supermarket chains, cinemas and pubs, according to court papers. Robert wasn't just the bank's No. 1 borrower; he was also a stakeholder. He owned 5 percent of Exista hf, a company that held a quarter of the bank's equity. And Kaupthing co-invested with Robert in the very assets he was buying with loans from the bank. Robert, who lives in Kensington, an affluent borough in London, declined to be interviewed.

As the value of Robert's stock-based collateral plunged underwater during 2008, Kaupthing provided his companies with £600 million in loans to help them meet margin calls, according to court records. In March 2008, Vincent put up part of his ground-rent portfolio—valued at £947 million at the time by Oliver Wyman Group, a London-based management consulting firm—as additional security for his brother. Eager to refinance some of his own debt, Vincent took a £100 million loan from Kaupthing secured by those real estate assets, too, according to court papers.

Kaupthing itself was scrambling to stay afloat. In a bid to become international banking powers, Kaupthing; Landsbanki; and Iceland's No. 3 lender at the time, Glitnir Banki hf, had borrowed heavily from European and U.S. bondholders for years. By June 2008, their assets had swollen to about $182 billion, more than nine times greater than Iceland's gross domestic product.

After Kaupthing failed in October 2008, it hired Grant Thornton and New York–based law firm Weil, Gotshal & Manges LLP to handle its insolvency and examine lending between the bank and its top borrowers. In November, Kaupthing called in Robert's loans and deemed them to be in default. The bank appointed Grant Thornton receivers for his assets, according to court papers. Vincent's ground-rent assets were eventually put into receivership too because they were pledged as collateral for some of Robert's loans.

On Dec. 23, 2008, Weil and Grant Thornton sent a memo to Kaupthing's resolution committee, which was overseeing the insolvency, stating that they had found evidence that senior bank executives had manipulated financial data and disregarded internal controls to permit "excessive lending" to favored borrowers. They highlighted the Tchenguiz brothers in the memo. A spokesperson for Kaupthing, which is in the process of being wound up, did not return phone calls.

On Oct. 29, 2009, Steve Akers, a Grant Thornton partner, and a Weil lawyer met with investigators from the SFO to discuss the Tchenguizes' dealings with Kaupthing, according to a summary of the meeting written by Alan Thorpe, an SFO investigator, and entered into the court record. Akers had liquidated Bernard Madoff's U.K. holdings and had worked closely with the SFO on criminal investigation of the fraudster, which was ultimately dropped. Now, he discussed how to work with the SFO to build a case against the Tchenguiz brothers. "SA thought that it should be possible to replicate the cooperative model as developed for Madoff," Thorpe wrote, referring to Akers. On Dec. 15, 2009, SFO's Alderman opened a formal fraud inquiry into the Tchenguizes. Akers, who's still a partner at Grant Thornton, declined to comment.

This probe was a crucial test for an agency that had endured a string of unsuccessful cases. In 2008, a British judge ruled the SFO's pharmaceutical industry price-fixing prosecution lacked legal standing after an eight-year investigation. A government-ordered review that year found that poor leadership and unfocused inquiries often caused the SFO's cases to collapse.

In a conference call on Sept. 9, 2010, Grant Thornton informed the SFO that it had uncovered documents that showed Vincent may have lied to auditors about the value of his ground-rent properties and obtained his £100 million loan through fraudulent means, according to a witness statement by Paul Brinkworth, an SFO case manager who conducted a review of the Tchenguiz investigation at Alderman's request. Grant Thornton provided the SFO with a number

BROTHERS IN BATTLE

After getting arrested, the Tchenguizes are trying to get even.

1988 The brothers start buying U.K. commercial real estate.

2004 Robert begins borrowing from Kaupthing to finance investments.

March 2008 Vincent puts up his real estate assets to secure loans for Robert and himself.

October 2008 Kaupthing fails. The U.K. government criticizes Iceland for not guaranteeing deposits.

November 2008 Kaupthing seizes Robert's assets.

2009 Grant Thornton and the Serious Fraud Office cooperate on probe of the brothers.

March 2011 The brothers are arrested on suspicion of fraud.

May 2011 Vincent challenges the legality of the search warrant.

June 2012 The SFO ends its probe of Vincent after conceding errors in the search warrant.

October 2012 The SFO drops its investigation of Robert.

December 2012 The brothers sue the SFO for £300 million in damages.

Vincent Tchenguiz named his 130-foot yacht *Veni Vidi Vici.*

GUIDO CASTAGNOLI

of documents related to the loan.

On March 7, 2011, the SFO's lawyers went before Judge Paul Worsley at the Old Bailey criminal court and alleged that the brothers had engaged in a conspiracy to defraud and steal funds from Kaupthing. In a request for search warrants, SFO lawyers said that the £947 million valuation for Vincent's freeholds was substantially overstated. They contended that he had double pledged the real estate as collateral for his brother's debt and his own loan. And the SFO said that he'd failed to inform Kaupthing that Bank of America Corp. and his other lenders had senior claims to the real estate in the event he defaulted on their loans. The judge granted the search warrants.

At dawn two days later, police officers arrested Vincent and Robert at their homes and held them in a London police station for the next 14 hours. The authorities also seized computers and thousands of files from their residences and offices. While the brothers weren't charged with a crime, Vincent says the arrests froze his business. Bank of America called in a £160 million loan for one of his property ventures, he says. With Vincent's ground-rent portfolio in receivership, he lost his lease income. Worse, he says no bank would refinance his assets with a criminal case hanging over him. "Vincent and Robert had been the golden boys, but this destroyed their reputations," says Lisa Tchenguiz, 48, a film producer who lives in Mayfair. "So they had to get their names back."

Vincent immediately realized that the SFO's application for its search warrants was wrong. The £947 million valuation by Oliver Wyman was a valid appraisal endorsed by Bank of America and other lenders, court records show. Moreover, his loan agreement with Kaupthing stated that he had divvied up his ground-rent assets to secure Robert's and his own loan, so there was no double pledging. The SFO also erred when it alleged Vincent had failed to inform Kaupthing that other banks had prior claims on his real estate; the loan agreement stated that fact more than 100 times.

In May 2011, Tchenguiz challenged the lawfulness of the search warrants. A family trust controlled by Vincent had sued Kaupthing in the High Court and sought £1.6 billion in damages for violating his fiduciary rights. In a settlement in 2011, Kaupthing agreed to remove his real estate assets from receivership.

Alderman learned that his team members had not read the loan agreement before seeking the search warrants even though they'd had possession of it for more than six months, according to Brinkworth's report on the investigation. That meant the SFO had misrepresented the fundamental facts of its case to Judge Worsley. The blunder demonstrated that the SFO hadn't corrected the shortcomings identified in the 2008 review, says Jessica De Grazia, the report's author. "Those problems kicked in when the SFO got hit with a high-profile case where there was public pressure to act," says De Grazia, a former New York prosecutor.

In June 2012, the SFO dropped its probe of Vincent. In a ruling issued on July 31, 2012, Lord Justice John Thomas and Justice Stephen Silber lambasted the SFO for making fundamental mistakes and for not scrutinizing the evidence Grant Thornton provided. "This is a case where it appears that the SFO relied very heavily on the work and conclusions of Grant Thornton," the judges wrote. "The SFO should not have been compelled to rely on Grant Thornton who owed duties to their own clients which rightly took precedence over the interests of the public." In October 2012, the SFO closed its inquiry into Robert's transactions.

Six months later, Vincent Tchenguiz is aboard his yacht. On deck, his friends are sipping white wine as the sun sets over the Mediterranean. Tchenguiz is holed up inside the cabin with one of his lawyers. He's working his way through a stack of SFO documents that the agency produced in connection with his lawsuit. "Had they not pursued the criminal case, we would never have gotten this disclosure information," he says. "It boomeranged back on them."

Tchenguiz then puts on his glasses and resumes examining the papers, circling points he'll raise later with his attorneys.

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