



Citibank Transaction Processing for Revlon

February 2022

Summary

Citibank agreed to serve as the Administrative Agent for a syndicated loan for cosmetic company Revlon in 2016 for the loan amount of \$1.8 billion. On August 11, 2020, Citibank intended to wire Revlon's creditors an interest payment of \$7.8 million. Instead, due to human error, it wired the full amount of the loan's balance, about \$900 million to the creditors. After requesting a return of the funds, ten of Revlon's lenders kept the payment, arguing that it was due to them due to the loan's terms.

Citibank took the creditors to court and on February 16, 2021, lost the ruling, which stated that a previous case had set precedent for whether the mistaken overpayment should be returned. That case required that the lenders were due a bona fide debt, which they were.

Citibank, therefore, lost a total of about \$500 million to this error.

Main Content

In 2016, faltering cosmetic giant Revlon took out a \$1.8 billion syndicated loan. A syndicated loan is a loan financed by a group of lenders who work together to provide funds for a borrower, which allow lenders to distribute risk and participate in financial operations that are too large for them to handle.¹ Citibank served as the Administrative Agent for Revlon's loan, agreeing to receive payments (including principal and interest) from Revlon and pass them on to the lenders involved.

On August 11, 2020, Citibank mistakenly wired to Revlon's lenders a payment of nearly \$900 million that included a \$7.8 million interest payment from Revlon and the remaining amount from Citibank itself. Citibank had intended to send only the \$7.8 million interest payment. Instead, the amount they transferred equaled the full loan amount.²

Within 24 hours, Citibank notified the lenders of its mistake and requested the funds back. Some lenders agreed; however, ten others refused and kept about \$500 million, arguing that Revlon was in default to them and Citibank was helping them with a contentious restructuring of their debt and on this basis they should be able to keep the funds wired to them.³

Citibank went to court to dispute the actions of those lenders who kept the Citibank overpayment, and succeeded in getting the funds frozen. On February 16, 2021, the United States District Court, Southern District of New York, ruled in favor of the lenders, allowing them to keep Citibank's funds. The court explained that:

On the one hand, if one party sends money to another by mistake, the latter should generally be required to give it back. On the other hand, if one party

¹ Segal, T. (2020, June 22). *Syndicated loan*. Investopedia. <https://www.investopedia.com/terms/s/syndicatedloan.asp>

² Stempel, J. (2021, February 16) *Citigroup cannot recoup Revlon payouts after nearly \$900 million gaffe: U.S. judge*. Reuters. <https://www.reuters.com/article/us-citigroup-revlon-lawsuit/citigroup-cannot-recoup-revlon-payouts-after-nearly-900-million-gaffe-u-s-judge-idUSKBN2AG1TJ>

³ Kay, G. (2021, February 24). *Take a look at the confusing bank interface behind Citigroup's \$500 million mistake*. Business Insider. <https://www.businessinsider.com/citigroup-accidental-wire-transfer-payment-design-interface-oracle-flexcube-2021-2>

owes money to another and pays that money back to the penny, the latter should generally be allowed to keep and use the money as it wishes, without fear that the former will develop a case of borrower's remorse and claim that the payment was made by mistake.⁴

The court cited a previous decision made by the New York Court of Appeals and the Second Circuit in *Banque Worms vs BankAmerica International*, 1991, in which a similar case ruled in favor of Banque Worms. In addition to the Banque Worms precedent, the court's decision hinged on whether the payment was made on a bona fide debt, which it did to the penny. (United States District Court Southern District of New York 2021)

Analysis of Mistake

Referred to as one of the biggest blunders in banking history, the mistake hinges on Citibank's failure to properly execute its "six eyes protocol" that requires three people to review and execute wire transfers from its transitional finance group.⁵

The system involves an employee from an outside firm, Wipro Ltd., called a "maker" to manually input payment details into the bank's loan processing program. The maker's input is verified by a "checker," also from Wipro. Finally, a Citibank employee looks at the transaction and serves as the final "approver" of the payment. ("Citigroup trial reveals chain of gaffes that led to the \$900 million blunder", 2020)

The six eyes protocol failed in the case of Citibank's \$900 million payment to Revlon's creditors. The bank's loan processing program, Flexcube, has a default of the wire payment unless one of the members of the six eyes protocol overrides the option, an action that did not occur in this case. Known as a "fat-finger mistake," the term refers to a human error made by pressing the wrong key. ("Citigroup trial reveals chain of gaffes that led to the \$900 million blunder", 2020)

⁴ In RE Citibank August 11, 2020 Wire Transfers. Case 1:20-cv-06539-JMF Document 243 (United States District Court Southern District of New York 02/16/21)

https://storage.courtlistener.com/recap/gov.uscourts.nysd.542310/gov.uscourts.nysd.542310.243.0_2.pdf

⁵ *Citigroup trial reveals chain of gaffes that led to the \$900 million blunder*. (2020, December 10). The Economic Times. <https://economictimes.indiatimes.com/news/international/business/citigroup-trial-reveals-chain-of-gaffes-that-led-to-the-900-million-blunder/articleshow/79654896.cms>

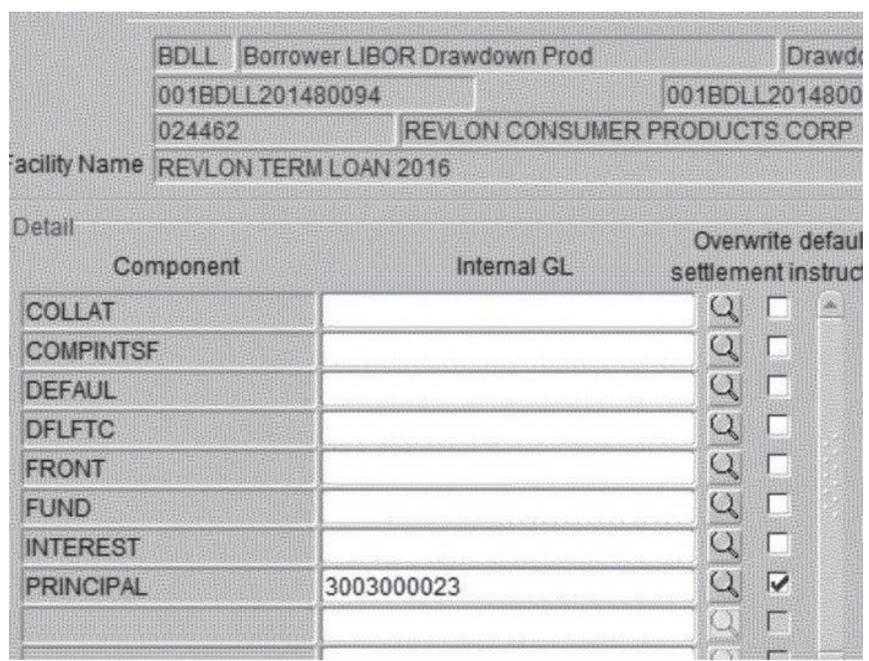


Figure: Flexcube's user interface system
 Source: United States District Court Southern District of New York 2021

An official with San Francisco-based tech intermediate agency, Clay, who examined the wire transfer, blamed the mistake on Flexcube's outdated user interface system. The Flexcube user interface system, he explained, should have been improved with simple changes like more clear instructions or a confirmation box that showed the details of the transaction. (Kay 2021)

Citigroup's Reaction

Following the mistaken \$900 million transfer, Citigroup, under which Citibank falls, requested the funds back from Revlon's creditors. Some creditors complied, to the tune of \$390 million. However, ten lenders refused, including large and well-known firms Brigade Capital Management, HPS Investment Partners, and Symphony Asset Management, LLC. ("Citigroup trial reveals chain of gaffes that led to the \$900 million blunder", 2020)

Executives at Citigroup's sales and trading unit have directed their staff to take these lenders off distribution lists, including those that send out pricing information on bonds (also known as runs), and ignore chat and phone messages from them.⁶

Business Insider reports that: "...the bank has threatened to withhold access to new loans that some of the funds need to bundle into new collateralized loan obligations, starving them of the supply they need to sell new debt and collect lucrative fees." (Campbell, 2020)

⁶ Campbell, D. (2020, September 16). *Citigroup is stepping up its war with the hedge funds that refuse to return Revlon money by ignoring their Bloomberg chats and cutting off pricing information on bonds*. Business Insider. <https://www.businessinsider.com/citigroup-trading-arm-freeze-out-revlon-hedge-funds-2020-9>

Lessons Learned

1. Make computerized software easy to use and anticipate human error. The user interface in Citibank's loan processing software included loan balances as default payments instead of interest payments, which required manual overrides. Updated user interfaces that anticipate human error mean that they should be easy to read and operate and include redundant features such as confirmation boxes which list details of the transfer.
2. Don't rely on three people's approval before making large transfers. While three people should be able to catch a large mistake like this one, in this instance they each missed the error.
3. Realize that court intervention may not rule in your favor. While some of Revlon's lenders returned Citibank's mistaken overpayment, ten of them did not, equaling a loss of about \$500 million. Though Citibank took the ten lenders to court, they lost.

Timeline of events

- 2016Revlon takes out a syndicated loan; Citibank serves as administrative agent.
- August 11, 2020Citibank mistakenly wires Revlon's creditors about \$900 million instead of the Revlon-funded interest payment of \$7.8 million they had intended to.
- August 13, 2020Citibank requests a return of the overpayment from Revlon's creditors and recoups about \$400 million. The other lenders refuse to return payment, arguing that they were due the balance of their loans.
- February 16, 2021United States District Court, Southern District of New York rules in favor of Revlon's creditors who did not return approximately \$500 million of Citibank's mistaken payment, and allows them to keep the money.

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