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Spy Story

Suits Focus on Extent Of CIA Involvement In an Alleged Fraud

Bankruptcy in Hawaii Left
Widows, Retirees Broke;
Was Firm Just a Front?

Suicide Try at the Sheraton

By JONATHAN KWITNY

Staff Reporter of THE WALL STREET JOURNAL

HONOLULU — A Central Intelligence Agency covert operation, in the movies and spy novels at least, is the very essence of stealth: quiet men in drab topcoats slipping in and out of a nondescript backstreet office set up as a business front.

Forty-one-year-old Ronald R. Rewald, however, doesn't fit the mold. During his six years on this island gateway to the Far East, this CIA man flaunted his close connections with top U.S. intelligence and military officials. Far from courting obscurity, he spent money with the abandon of an Arab oil sheik: He owned a personal fleet of 12 limousines and luxury cars (including an Excalibur, two Mercedes-Benzes and a Rolls), ranches, polo clubs and an ocean-front villa with its own lagoon. He threw eye-popping parties and, although married with five children, surrounded himself with gorgeous women, on some of whom he lavished their own Mercedes-Benzes.

His business career as an investment banker and financial counselor was equally spectacular. Promising interest rates of 27% to 100% a year, Mr. Rewald lured investments of about \$23 million to his company, Bishop, Baldwin, Rewald, Dillingham & Wong. When it was discovered last July that there was no money to pay some 400 depositors, he slashed his wrists in what he said was an unsuccessful suicide attempt.

At that point, Bishop Baldwin looked like a classic Ponzi scheme. Initial testimony in U.S. district court showed that Mr. Rewald apparently didn't invest in any profitable deals, had used cash from new deposits to pay interest on the old ones and had spent most of the money he took in on himself and his company. Bishop Baldwin was declared bankrupt—a ruling that Mr. Rewald's lawyers are appealing—and the Securities and Exchange Commission filed a civil anti-fraud action against Mr. Rewald and his firm. Money magazine wrote the case up last fall as a warning to investors.

Bail: \$10 Million

But a funny thing happened on the way to the courthouse. CIA lawyers suddenly appeared in Honolulu and persuaded U.S. District Judge Martin Pence to seal every scrap of evidence in the case on national-security grounds. Relatively minor state fraud charges were filed, and Mr. Rewald was jailed on an astounding \$10 million bail. For six months, while the federal government ran its own closemouthed and so far inconclusive investigation, state authorities held him almost incommunicado: The few close friends who were allowed brief visits with him were forbidden to bring in written questions or take notes.

Although the CIA later cleared a small part of the evidence, and Judge Pence put it on the public record, most of the evidence in the SEC and bankruptcy actions is still sealed. And the CIA persuaded the judge to throw a sweeping gag order over the cases, forbidding "all parties and their attorneys and their agents . . . from communicating to any person . . . by oral, written, or any other means . . . information relating to matters pertaining to the Central Intelligence Agency."

Mr. Rewald's lawyers say those orders prevent him from asserting his defense: that Bishop Baldwin was created by and run as a front for the CIA. Mr. Rewald says—in court papers and other statements made available by persons close to him—that he himself was a "nearly full-time" covert agent under contract to the CIA and that everything he did at Bishop Baldwin was on CIA orders.

Tacit Concession

The CIA has denied that it controlled Bishop Baldwin or knew that Mr. Rewald was diverting funds. It won't elaborate. But a relationship was tacitly conceded by CIA counsel Robert M. Laprade in papers he filed with Judge Pence to obtain the secrecy orders. Without those orders, he argued, Mr. Rewald's lawyers "will divulge in detail Rewald's relationship to the Central Intelligence Agency. It is the obligation of the United States to act in accordance with appropriate executive orders . . . whenever . . . national security information may be subject to unauthorized disclosure."

Mr. Rewald's case appears to be the latest in a series raising the issue of whether the CIA, in fulfilling its foreign-policy mission, might be abetting crimes against U.S. citizens, either intentionally or through negligence. Most notably, it is reminiscent of Nugan Hand Ltd., an Australian-based banking concern run by retired CIA and Pentagon brass that financed heroin and arms syndicates and bilked U.S. investors of millions of dollars. The Rewald case, however, may be the first in which some of the wiped-out investors have filed suit against the CIA to recover their money.

Many investors put nearly every nickel into Bishop Baldwin, and individual accounts ran as high as \$1 million. Mr. Rewald persuaded some to give him power of attorney to handle all their financial affairs. His clients included retirees, widows and disabled people who now are destitute.

Some of those clients have hired noted lawyer Melvin Belli to represent them in their claims against the CIA. Mr. Belli says he has also agreed to represent Mr. Rewald, who asserts that he relied on a secret CIA fund in the Caribbean to pay everyone off. Mr. Rewald says the CIA ruined his business career by abandoning him, and he is asking the CIA for \$571 million in damages and indemnification against the claims of his former clients.

'Ponzi Scheme'

Judge Pence has ruled, without elaborating, that from his reading of the secret documents, Mr. Rewald's CIA connection isn't relevant to the bankruptcy or SEC cases. In the SEC case, Judge Pence has already ruled that Bishop Baldwin was a "fraud" and a "Ponzi scheme," and that Mr. Rewald simply pocketed the investors' money. At the SEC's request, he enjoined Mr. Rewald and the firm from continuing such business.

Questioned by a reporter, Judge Pence declared, "The whole thing is under seal because the CIA has not yet made their report to me as to their involvement, if any, with Rewald. I cannot and will not release any (of the files)."

Whether the CIA sanctioned Mr. Rewald's financial misdeeds may never be known. But from the time he came to Hawaii in November 1977—with a prior theft conviction and a personal bankruptcy in Wisconsin, generally unknown, under his belt—Mr. Rewald worked hard to surround himself with top CIA and FBI officials, military brass and politicians. At his parties, he would point out those dignitaries to potential investors, confide that Bishop Baldwin was part of the CIA and stress that this meant their money would be safe in his hands. "If you can't trust the government, who can you trust?" several clients say he told them.

Obviously, it would be in Mr. Rewald's interest now to exaggerate his CIA ties, and most officials involved in the case believe he is doing that, at least to some extent. But, even if Mr. Rewald fails in portraying himself as a CIA pawn, his former clients will probably argue that the CIA lent credibility to his business dealings and that the agency knew—or should have known—what was going on. Robert A. Smith, a Honolulu lawyer working with Mr. Belli, says, "I don't have to prove they ordered it. All I have to prove is that they knew about it and allowed it to happen."

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• CIA 1.04 Rardin, Jack
• CIA 3.01.3 Beaumont
(Orig under Kwitny)