



The money laundering issue in Standard Chartered Bank

By
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The problem

- New York state department of financial services (DFS) stated Standard chartered bank operated as a 'Rogue institution' and violated the US sanctions on Iran by falsifying records, manipulating wire transfers that would have identified Iranian customers. (process called wire stripping)
- The bank developed various ploys that were all designed to generate a new payment message for the New York branch that was devoid of any reference to Iranian clients.
- Also allegation the bank worked with three Iranian banks which are suspected of funding groups including Hezbollah, Hamas and the Palestinian Islamic Jihad.

The details

- Investigation period: 9 months
- Checked: 30,000 emails, internal memos and documents
- Transactions concealed: 60,000
- Amount involved: \$250B
- Clients: Iranian state owned banks
- Period : 2001-10
- Fees earned by Standard chartered: Several million dollars

The cover up

- Well established policy of 'repairing' documents in U-turn transactions (whereby offshore money passes through US financial system on its way to other offshore accounts)
- A 'Quality operating procedures Iranian Bank processing manual' taught employees how to automate masking of illegal transactions!
- Project Gazelle- a plan to forge new relationships with Iranian companies interested in oil and gas related areas
- Email by lawyer "payment instructions for Iranian clients should not identify the client or purpose of payment"
- One Iranian told to use 'No name given' in paper work

The cover up contd.

- 1995 email by general counsel had a detailed Plan to ignore regulations imposed by Treasury department
- It clearly said “Must not be sent to US’
- Similar schemes to do business with other countries which had US sanction like Myanmar, Sudan, Libya!

Did the management know?

- Official of US division warned top bank managers in London in 2006:
 - Bank could face serious criminal liability
 - This had potential to cause very serious or even catastrophic reputational damage to the Group.
- He got a reply as follows:
 - You xxxxx Americans , who are you to tell us , the rest of the world , that we are not going to deal with Iranians'

Deloitte Touche involvement

- Independent report Deloitte's US consultancy arm prepared for Standard Chartered 'intentionally omitted critical information'.
- A Deloitte executive making the report wrote:
 - This is too much and too politically sensitive for both SCB and Deloitte. That's why I drafted the watered down version
- Deloitte has denied it aided the bank.
 - We properly performed our role as independent consultant and had no knowledge of any alleged misconduct by [Standard Chartered] bank employees. Allegations otherwise are wholly unsupported by the facts.

Impact

- SCB lost \$17B in market cap
- Officials appear in NY on 15 aug to testify before DFS
- FBI investigating
- Fines (may be around \$1.5B) and even revoking of US Banking license –possible fall out
 - 90% of SCB profits come from developing economies; Central to Standard Chartered's business is its ability to facilitate trade between emerging economies and developed countries by clearing transactions in New York City. If US license is canceled Bank would be affected very much

SCB not alone

- ING bank settled a Money laundering case at \$619M
- HSBC was used by Mexican drug cartels to funnel cash into USA via Saudi banks with terrorist links

Outsourcing to India

- Were there deficient money laundering controls in outsourcing of work by Stanchart to India?
- Same question was asked of HSBC work outsourced to India
- To me it looks like if controls are weak it doesn't matter where the work is done!

SCB says

- We are conducting internal review of compliance
- Over 99.9% of transactions relating to Iran complied with U-turn regulations of USA. The infringements involve the relatively modest sum of \$14m,
- DFS Interpretation is incorrect as a matter of law.
- Bank's review of its Iranian payments also did not identify a single payment on behalf of any party that was designated at the time by the U.S. government as a terrorist entity or organization.
- One SCB executive says the DFS report reads like a John Grisham novel!
 - N.B: The bank states in its own documents that its success is because of its "moral compass" and a core value of "openness" that is based on "always trying to do the right thing."

Why would a reputed bank do this?

- I read somewhere:
 - Evidence suggests that Companies behave **as corruptly as they can, within whatever constraints are imposed by law and reputation**
- The problem comes when the line is crossed
 - They do not know when they cross the line as they become blind to this due to pressures on profits / performance etc
 - Once the line is crossed, then you start riding the tiger!

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