

When to Not Use the F-Bomb? The Standard Chartered AML Settlement

I guess it is appropriate that the word “F-Bomb” will now, as of next week and for the first time, be in the mainstream Merriam-Webster's Collegiate Dictionary. I say this while thinking about Howard Sklar’s blog post, entitled “*Best.Quote.Ever*”, in which he cited the following email from Standard Chartered Bank’s (SBC) Group Executive Director to its head of Compliance in New York.

You f...ing Americans. Who are you to tell us, the rest of the world, that we’re not going to deal with Iranians?

[*Ed. Note - This is a PG-rated blog so we have edited the curse word. We would note that the family G-rated New York Times (NYT) cut the entire first sentence from its reporting.*]

Well, as of yesterday, SBC seems to have found the understanding that if you are going to do business, in at least the state of New York, you had better follow the rules as it agreed to pay a \$340MM fine to the New York state Department of Financial Services (DFS) for breaking the law. Unfortunately, the SBC settlement was just one more in long line of settlements by banks for violations of anti-money laundering (AML) laws. In an article in the Wall Street Journal (WSJ), entitled “*British Bank Settles Iran Money Case*”, reporter Liz Rappaport cited figures from the US Department of Treasury and Justice Department regarding the largest US anti-money laundering settlements.

AML Penalty Box of Settlements

<i>Bank</i>	<i>Amount (all in \$millions)</i>	<i>Date of Settlement</i>
ING Bank	\$619	June 2012
Lloyds TSB Bank	\$567	December 2009
Credit Suisse	\$536	December 2009
Royal Bank of Scotland	\$500	May 2012
Standard Chartered	\$340	August 2012
Barclays	\$298	August 2012

We also note, as reported in the WSJ, that HSBC Holding has publicly announced it “has reserved \$700 million to pay fines” relating to its AML violations.

While the amount paid by SBC is low on the scale of fines paid to date, Rappaport quoted analysts as saying “the settlement is a good outcome for Standard Chartered. They say the penalty is manageable for a bank that generated nearly \$4 billion in profit in the first half of 2012.” However, there were some components of this settlement that could cause SBC further pain down the line. The first, as reported in a Financial Times (FT) article entitled “*StanChart settles NY claims for \$340m*”, is that the agreement is with the state of New York regulators only. It does not cover the “US Department of Treasury, Department of Justice, Federal Reserve

and Federal Bureau of Investigation” all of whom are “also probing the bank’s transactions with Iran” in long running investigations. Credit Suisse analyst Amit Goel was quoted in another WSJ article, entitled “*Standard Chartered Faces a New Normal in New York*”, that “We would expect the other regulators to settle in due course, and the fines may be material, but we think the aggregate cost will be below \$1 billion and will not require the company to issue any additional equity.”

In addition to these ongoing investigations SBC will have not only an external monitor, appointed by the New York DFS, but also examiners from the DFS installed on site at the bank who “will assess the money-laundering risk controls in StanChart’s New York branch, advise on the implementation of “corrective measures” and report back to the DFS for a full two years.” I can assure SBC that having such compliance monitors, both external and from the DFS, will prove to be very disruptive to their ongoing business operations. A bank spokesman was quoted, in a WSJ article, as saying “the bank said it has no idea how intrusive the installation of monitors might be because the final details have yet to be hammered out.” Indeed.

So how about that idiotic email that started this piece. I would say that SBC needs some serious training on email etiquette. Maybe they could have Bobby Knight come in for sensitivity training? Or maybe, just maybe, they could follow the law.

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