

Standard Chartered Case Casts a Chill Over Banks

By JESSICA SILVER-GREENBERG

Money laundering accusations leveled against a British bank by New York's top banking regulator are causing global banks to worry that their New York operations could make them public targets for processing transactions already deemed legal by federal regulators, according to federal authorities with knowledge of the concerns.

Benjamin M. Lawsky, who leads the New York Department of Financial Services, upended the regulatory landscape on Monday by accusing Standard Chartered of scheming with the Iranian government for nearly a decade and hiding from regulators \$250 billion in transactions through its New York branch. The bank, for its part, has said it "strongly rejects the position and portrayal of facts" by Mr. Lawsky's department.

The accusations largely center on transactions that the federal government permitted until 2008, namely the transfer of money with Iran through the United States from one foreign-based entity to another.

Until Mr. Lawsky's case against Standard Chartered claimed that the bank cloaked these so-called U-turn transactions, there was virtual consensus among Treasury Department authorities, the Justice Department and the Manhattan district attorney's office that such transactions were legal, even if they violated the spirit of the law, according to people briefed on the matter.

A number of European banks, including Lloyds, Barclays and ING, that have already settled money laundering cases with the Justice Department and the district attorney's office are concerned that they could be in the state banking regulator's sights, according to federal authorities who spoke on the condition of anonymity.

Details in each bank's case were different, with the international banks suspected of using their United States subsidiaries to process tainted money for clients that included Iran, Cuba, Sudan and sponsors of terrorist groups. But none of the cases took issue with U-turn transactions with Iran that occurred before November 2008, the officials said.

In June, for example, the Justice Department and the Manhattan prosecutor's office reached a \$619 million settlement with ING Bank over accusations that it had illegally moved billions of dollars into the United States for Cuban and Iranian entities that were under sanctions. Transactions with Iran, rather than taking a U-turn and heading back offshore, ended up in the United States — thus violating the law.

Now, federal law enforcement officials have been fielding a flurry of worried calls from bank executives concerned that the rules have suddenly changed, according to former and current officials involved in the conversations.

Some banks, the officials said, are trying to anticipate how they will navigate the apparent shifting terrain between state and federal law. The worry, the authorities said, is that the state banking regulator could decide that past transactions, which were legal under federal law, violate a state law. According to the federal authorities, one question continues to emerge: Will New York State take issue with these transactions?

Mr. Lawsky's order against Standard Chartered cited several apparent violations of state laws, among them that the bank "failed to maintain or make available at its New York branch office true and accurate books, accounts and records" of transactions including "Iranian U-turn transactions." The order also claims that the bank falsified records "with the intent to deceive the superintendent and examiners, supervisors and lawyers of the department and representatives of other U.S. regulatory agencies."

With his move against Standard Chartered, Mr. Lawsky "has created utter turmoil," said a federal official who insisted on anonymity because the conversations with the bank executives were private.

Mr. Lawsky and a spokesman declined to comment for this article.

Executives at the British bank HSBC, which has branches throughout the state, are baffled about what Mr. Lawsky's claims mean for the bank's New York operations.

HSBC is under investigation by federal authorities for suspected money laundering violations connected to Iran, Mexico, Saudi Arabia, Cuba and North Korea, and the bank has set aside \$700 million to cover potential fines. The bank declined to comment.

Representatives for Barclays, ING and Lloyds also declined to comment.

The banks are not the only ones caught off guard. The Justice Department, which is investigating Standard Chartered, was on the verge of concluding that virtually all of the bank's transactions with Iran complied with the law, according to current and former authorities, who, like others interviewed on the matter, declined to be identified.

At meetings over the last couple of weeks, the officials said, momentum was building to not pursue a criminal case against the bank. Also helping Standard Chartered's cause, the officials said, was the bank's genuine cooperation with authorities. It has been providing data on years of transactions to the authorities since 2010.

"There was not much there there," one of the officials said.

Standard Chartered has taken a similar view, fiercely arguing that most of the transactions — all but \$14 million — on behalf of Iranian banks and corporations were permitted under the law as it existed until

2008. Further, the bank argued that it had examined the transactions and found that they had nothing to do with terrorist organizations.

A Justice Department spokeswoman declined to comment.

Since Monday, Mr. Lawsby has been unapologetic about his order against Standard Chartered, which requires the bank to explain the apparent violations of law in a meeting on Wednesday and justify why its license to operate in New York should not be revoked. "This is a case about Iran, money laundering and national security," Mr. Lawsby said in a statement on Wednesday.

A spokesman said the department had not yet decided whether the hearing would be public.
