

MAKING ORDERS OF MAGNITUDE OF FRAUD DISAPPEAR

Yesterday, I wrote a post based on this Reuters story about how banks negotiated settlements that hid the greater part of their crimes (in this case, Standard Chartered Bank's tampering with SWIFT to hide transactions for Iran). The key point I linked was how SCB used consultant Promontory to produce a report saying the amount of fraud affected only \$14 million of transactions, rather than the \$250 billion of transactions that NY's Superintendent of Financial Services saw.

As part of a review the bank sought to give to regulators, Standard Chartered hired Promontory Financial Group, a Washington D.C. consulting firm run by Eugene Ludwig, who served as U.S. Comptroller of the Currency from 1993-98. Promontory was hired to review Standard Chartered's transactions tied to Iran. The bank's review ultimately settled on the figure of less than \$14 million for improper transactions.

The numbers were so disparate, I even kept misstating how many orders of magnitude of difference the report hid. Ultimately, however, the Reuters article suggested that by paying Promontory to draw up this report, SCB hoped to avoid liability for over 99% of its tainted transactions—and since fines for settlements are based on those tainted transactions, it would have paid a tiny fraction in fines of what it could or should pay, too.

The Reuters article was a pretty damning picture of how the Get Out of Jail Free industry works.

And then, the most damning parts of the article disappeared (Update from Briinhild: the full story is back up). As Yves discovered later in

the day yesterday, Reuters pulled those paragraphs of the story that described this whole process.

Now I decided to go have a look myself. Being on the vampire shift, I didn't go looking until mid afternoon. And guess what, the story that was now at that URL was not the same story. Yes, there was a story on Standard Chartered. But the version that Marcy worked from was apparently the original, released at 00:28 AM, titled "U.S. regulators irate at NY action against StanChart." I've loaded that version in a Word and put it up at ScribD, and am embedding it below. It's 1766 words. Be sure to download it if you are interested in this topic

[snip]

But the juiciest bit is how it flags the astonishing difference between the \$250+ billion in transactions that Lawsky and SCB's sanctimonious claim of a mere \$14 million in dodgy transfers came about. Recall the quote that Marcy extracted above, that the advisory firm Promontory, headed by former Comptroller of the Currency Gene Ludwig, conducted a review and "settled" on the \$14 million total. Promontory has made a bit of a specialty of getting hired to do independent reviews for boards in rogue trader cases. It seems it has been using the name it developed there, plus the fact that it has many former staffers from the OCC and other regulators, to enable it to act as a big ticket fixer (note that while the article also mentions that Rodgin Cohen of Sullivan & Cromwell, long recognized as the top bank regulatory lawyer, has been engaged to represent SCB. That's almost to be expected).

So why did the original story get disappeared?

While most of the reporting on SCB's pushback has noted that it believes the money laundering only involves \$14 million, not \$250 billion, those stories didn't disclose how SCB came up with that dramatically smaller number.

They paid for it. That's how. But we're not supposed to know that.