

THE SUPERINTENDENT OF FINANCIAL SERVICES DRAWS THE CURTAIN BACK ON THE GET OUT OF JAIL FREE INDUSTRY

As Yves and I suspected, NY Superintendent of Financial Services Benjamin Lawsky was breaking the unwritten rules that regulators should help banks avoid any consequences for violating sanctions and other violations when he released details of Standard Chartered Bank's dealings with Iran.

The Treasury Department and Federal Reserve were blindsided and angered by New York's banking regulator's decision to launch an explosive attack on Standard Chartered Plc over \$250 billion in alleged money laundering transactions tied to Iran, sources familiar with the situation said.

[snip]

Lawsky's move also undercut the Treasury's Office of Foreign Assets Control (OFAC), which has made a priority of enforcing economic sanctions against Iran. The surprise left the office's leader, David Cohen, the undersecretary for terrorism and financial intelligence, scrambling to come up with a response, sources said.

Reuters lays out the steps that SCB took that normally should be enough to minimize any consequences for violating Iran sanctions. First, you hire Sullivan and Cromwell and act contrite. Then, you pay a consultant to conduct a review and claim the violations involved just \$14 ~~billion~~ million in transactions as opposed to \$250 billion shown in your bank records.

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.

Then you bury all the embarrassing details showing willful flouting of the rules, so the proles don't learn how craven banks really are.

I suspect, for the reasons laid out here, that OFAC will still find a way to give SCB a nice cushy settlement. But Lawsky has revealed what really goes on behind these settlements: the coziness, the misrepresentations, the complicity in hiding the true face of banking.

Update: Thanks to Jim—who is supposed to be on vacation—for noting I got the amount the consultant decided was tied to Iran wrong by an order of magnitude: million, not billion. Which means the consultant's job was to minimize the exposure to a fraction of a percent of the true exposure.

Update: Barry Ritholtz's take on this.