

# Iran and the Standard Chartered Bank Money Laundering Charge

Is This Incident A Retaliation Because A Bank Official Made A Disparaging Comment About US Hostility To Iran?

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On the surface, it looked like a simple game of “Gotcha,” when New York Bank regulators blew the whistle on London’s Standard Chartered Bank for laundering money. The fact that the money was allegedly tied to Iran cast a major shadow on the allegations, given the Islamic Republic’s “bad guy” image in American policy circles.

Big money was said to be involved when a NY State regulator, Benjamin Lawsky, considered a publicity seeking cowboy in banking circles, made the explosive charge that Standard Chartered bank abetted \$250 billion of money-laundering transactions with Iran.

On the surface the case was open and shut and headline-making, even though other federal regulators didn’t immediately jump in with guns blazing.

Then, as Reuters reported, it all became even murkier when Britain’s Central Bank governor portrayed Lawsky as marching to his own tune, and out of step with federal regulators in Washington. “One regulator, but not the others, has gone public while the investigation is still going on,” the Bank of England’s Mervyn King said at a news conference in London.”

Suddenly, the plot thickened, even as the media tide carried with it the assumption that the bank was guilty as sin. With the Regulator calling Standard Chartered a “Rogue Institution,” its shares began dropping in value. In one morning’s trading, on the basis of accusations in a press release and uncontested legal charges, the bank lost \$16 billion after the unproven allegations that US. Sanctions on Iran were violated hit the press.

Bank officials initially contested the scale of the transgression indicating that only a small part of its business with Iran was involved, no more than \$14 million. Federal regulators also implied that NY State was exaggerating the scale of any potential problem and that Lawsky’s language was unnecessarily “strident.”

But it is strident language that gets attention in a media that rarely bothers to investigate issues like these.

Not mentioned in the first stories was that Standard Chartered had met Lawsky’s office months earlier, but nothing was said then about any high crimes and misdemeanors.

That would change when the opportunity for a big media story materialized. Now, Lawsky was treating this case as major violation of national security, saying: “This is a case about Iran, money laundering, and national security,” Lawsky said , “We will continue to work

closely with our law enforcement partners, both federal and state, in this effort. No bank, big or small, foreign or domestic, is above the law.”

Sounds dramatic, doesn't it? But the British were furious because their investigation was not complete, but, whatever the truth, the perception of wrong-doing began killing the banks stock price. An auditing firm accused of fudging the numbers also adamantly denied it.

Bank critics in the US lashed out at the British regulators who criticized a lack of protocol by the NY regulator. Wrote James Kwak on BaselineScenario.com, a leading economics blog:

“Standard Chartered almost certainly conspired to evade U. S. sanctions?\* Why are they mad at Benjamin Lawsky instead of at Standard Chartered? And when you think a violation of inter-regulator “protocol” is worse than a systematic plan to defraud the U. S. government and break sanctions against Iran, of all countries—it’s hard to imagine how you could be more captured, without knowing it.”

Is this true? No Court has agreed with the accusation, and now none will because there has now been a settlement with no admission of guilt,

Standard Chartered initially said they would fight back. CEO Peter Sands issued this statement, “(We) fundamentally reject the overall picture and believe there are no grounds for them to take this action,” he told reporters. The threat to cancel the bank’s license to operate in New York would be “wholly disproportionate,” he said.

It turns out that the pressure to punish the bank was partly due to fury at a colorful comment allegedly made by a Standard Chartered executive who challenged the arrogance of New York regulators in a conversation way back in 2006.

Bank Executive Richard Meddings allegedly said then: *“You f—ing Americans. Who are you to tell us, the rest of the world that we’re not going to deal with Iranians?”*

Daring to criticize the self-righteousness of US regulators and US policy in a off the record comment (not even in a document) apparently marked the bank for retaliation by flag-waving and thin-skinned regulators.

What was Standard Chartered to do? Stand on principles and its “facts” and possibly lose its license in New York, or try to settle —without admitting wrongdoing. At the same time, more investigations are underway in connection with its alleged violations of US sanctions laws.

What do you think happened? The bank did a quick calculation and decided to pay up rather than be shut down. They coughed up \$340 million in a case that smacks of official extortion dressed up as high principles. The NY regulator has the power to close the bank if it believes the bank is untrustworthy, even if the bank is not guilty of any particular transgression. The Bank says the accusations deal with only 1% of some 60,000

Iranian wire transfers that New York regulator claims were involved.

Naked Capitalism (NC) reports that the regulator tried to shake Standard Chartered down for even more money. “The amount agreed was less than he was initially rumored to be

seeking, which was in the \$500 to to \$700 million range. However, as we also indicated, in a “good” settlement, neither side gets what it wants. And given that the Federal authorities were roused by the New York action and are also reported to be negotiating settlements, they will likely have to secure decent dollar amounts so as not to be perceived to be completely incompetent, which would have cut into what SCB would pay to New York.”

The NC website also explains, “SCB was handling Iran’s foreign oil sale related payments.

Meanwhile in London, according to Fortune, “Money managers’ reacted to the U.S. allegations that Standard Chartered hid money tied to Iran with these words: Everyone does it.”

The U.S. business magazine added, “Talk that the bank could lose its ability to work and trade in the state is being dismissed as simply “loony.”

Meanwhile, money managers in the City believe that the bank’s credit looks solid and its equity value is now cheap compared to its peers – even ones that have their plates full with their own scandals ranging from the Libor fixing to insider trading. Nevertheless, the company’s stock and bonds are expected to trade at a discount to its peers until the bank either resolves the issue or sets aside the cash to deal with it...It wasn’t too long ago that the big European banks actually flaunted their close relationship with entities connected to Iran.”

The Guardian seemed sympathetic to Standard Chartered too, reporting that the bank called its decision “pragmatic...in the best interest of shareholders and customers”.

The newspaper explained, “The loss of its banking licence would be more damaging than the fine, although Sands on Tuesday told the Business Standard paper in India – where the bank has a high street banking operation – that he did not believe the bank would be stripped of its ability to conduct business directly in the US.

Ian Gordon, banks analyst at Investec, said: “It has taken the nuclear option off the table and suggests the total settlement will be manageable.”

Maybe Richard Meddings was right, even though the exercise of his “freedom” of speech has proven very costly. Ironic isn’t it, that sanctions are supposedly in place to stop Iran from going nuclear, just as fact challenged regulators use the “nuclear option” to get their way.

And so it goes, another day in the world of banking where hypocrisy reigns and trillions in global money laundering are ignored. Prosecution of wrong doers are few and far between because officials get more pats on the back from their bosses for bringing in money rather than putting wrong doers in jail. A government that has dragged its feet in prosecuting crimes committed by the likes of Bank of America or Goldman Sachs has no problem going after small fry like Standard Charter to show that they are “doing something” with Iran as the pretext.

This tale of regulatory complicity feels like all the stories we read about the police shaking down the mafia so they can be cut in to the rackets.

Wall Street has become a place where real financial fraudsters go unpunished while inflated cases like this get the attention especially when a demonized “evil doer” like Iran is said to

be involved. Real crimes like the way sanctions hurt ordinary Iranians go unreported.

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