



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

MUL-607200

**SETTLEMENT AGREEMENT**

This Settlement Agreement (the "Agreement") is made by and between the U.S. Department of the Treasury's Office of Foreign Assets Control and Standard Chartered Bank.

**I. PARTIES**

1. The Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury administers and enforces economic sanctions against targeted foreign countries, regimes, terrorists, international narcotics traffickers, and persons engaged in activities related to the proliferation of weapons of mass destruction, among others. OFAC acts under Presidential national emergency authorities, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

2. Standard Chartered Bank ("SCB") is a financial institution registered and organized under the laws of England and Wales.

**II. FACTUAL STATEMENT**

3. In February 2001, Bank Markazi Jomhuri Islami ("Markazi") approached SCB about the possibility of opening an account to receive the proceeds of oil sales by the National Iranian Oil Company and certain additional Markazi funds. SCB and Markazi began to develop operating procedures to mask the involvement of Iranian entities in payment instructions sent to SCB's New York Branch ("SCB NY"). When the beneficiary bank of a payment from Markazi was a non-Iranian bank, for example, SCB's London Branch ("SCB London") would send a single MT 202 payment message to SCB NY with full details of the beneficiary bank; however, when the beneficiary bank was an Iranian bank, SCB London would send an MT 100 or MT 103 to the beneficiary bank's non-U.S., non-Iranian correspondent bank with full details of the Iranian beneficiary bank, and a separate MT 202 to SCB NY with no mention of the Iranian beneficiary bank.

4. SCB London set up routing rules within its payment system to route all incoming Society for Worldwide Interbank Financial Telecommunication ("SWIFT") messages from Markazi to a repair queue, meaning that the payment was subject to manual review and processing by wire operators, to prevent SCB London from automatically processing outbound payment instructions cleared through the United States with a reference to Markazi in the payment message. SCB London's payment processing team initially instructed Markazi to insert SCB London's Bank Identifier Code ("BIC") in field 52 (ordering institution) of its incoming

payment instructions so that SCB's payment system would not populate that field with Markazi's BIC. In cases where Markazi failed to do so, SCB London wire operators would manually change field 52 to reference SCB London's BIC in order to mask Markazi's involvement in the payments.

5. As early as February 2002, several additional Iranian banks approached SCB London to discuss the possibility of opening new accounts. SCB London's Legal, Compliance, and Cash Management groups identified the need for written procedures for the operation of the Iranian banks' USD accounts. SCB London memorialized the procedures to process payments sent through the United States from the Iranian banks in a document entitled "Standard Chartered Bank Cash Management Services UK – Quality Operating Procedure: Iranian Bank Processing" (the "QOP"). The final draft of the QOP, first issued to SCB London payments staff on February 20, 2004, included detailed instructions regarding the omission of the Iranian remitting bank's BIC:

Ensure that if the field 52 of the payment is blank or that of the remitting bank that it is overtyped at the repair stage to a "." (Note: if this is not done then the Iranian Bank SWIFT code may appear – depending on routing – in the payment message being sent to [SCB NY]).

6. In addition to inserting a "." in field 52, the QOP also instructed staff to use cover payments to effect Iranian bank payments, which resulted in SCB London omitting any reference to the involvement of Iranian beneficiaries or beneficiary banks in SWIFT payment messages sent to SCB NY. To prevent transactions that did not qualify for a then-existing OFAC general license (the "U-Turn General License")—which authorized transfers to or from Iran where the only involvement of a U.S. person was as an intermediary bank not debiting or crediting an Iranian bank—from being sent through the United States, the QOP also instructed its payments staff to "ensure that the payment is a 'U-Turn,'" to reject payments that did not comply with the U-Turn General License and to screen outgoing payment messages against a list of OFAC-sanctioned entities maintained by SCB London.

7. The above-referenced controls notwithstanding, in October 2005 (as part of the internal review discussed below) SCB Group's Head of Legal & Compliance, Wholesale Bank expressed his concern over the procedures used to process payments for the Iranian banks in an email to the Group Head of Compliance and Regulatory Risk and other managers:

I feel that I must record in writing my serious concern over the current written guidance and instructions in London relating to Iran sanctions, and the need to take urgent action to change them... The 'Quality Operating Procedure – Iran Bank Processing' document, read in isolation, is clearly a process designed to hide, deliberately, the Iranian connection of payments. I am concerned that, in the absence of any other effective, coherent, operational instructions, it would be difficult to resist the inference that the intention of the process is to enable payments to be made that are prohibited by the sanctions. Even if we have robust, detailed, procedures for checking that all the criteria for a permitted U-turn payment are fulfilled, I do not believe that we should continue the repair process, in

view of its potential for misuse to mislead our New York branch, and the perception that it was designed for such purpose.

8. While SCB's omission of information affected approximately 60,000 payments related to Iran totaling \$250 billion, the vast majority of those transactions do not appear to have been violations of the Iranian Transactions Regulations, 31 C.F.R. Part 560 due to authorizations and exemptions which were in place at the time.

9. In August 2003, SCB NY sent a letter to OFAC addressing a then-blocked Libya payment that had been re-effected using a cover payment. That letter stated in part: "SCB (London) has advised us that...the use of cover payments was contrary to Standard Chartered Bank's global instruction relating to OFAC sanctioned countries that would have precluded the initiation of such cover payment instructions." SCB maintains that this statement was accurate when made in connection with the Libya-related transaction in question, a program for which there was no analogue to the U-Turn General License. OFAC, however, finds the statement to be misleading in light of the large number of Iran-related transfers that were processed using cover payments. SCB also appears to have used cover payments when processing transactions involving Sudanese entities, where U-Turns were similarly not allowed and despite warnings that standard payment methods should not have the "unintended consequence of avoiding... OFAC regulations." A more complete explanation of SCB's use of cover payments in its August 2003 letter to OFAC may have led OFAC to inquire further regarding the sanctions implications of the bank's procedures.

10. In October 2004, SCB NY entered into a Written Agreement with the Federal Reserve Bank of New York ("FRBNY") and the New York State Banking Department to correct deficiencies relating to, among other things, the bank's USD correspondent banking business. Despite the explicit interest of these regulators regarding SCB NY's processing of cover payments and payments with special characters specifically, which had the potential to conceal illicit financial activity, SCB NY chose not to make its regulators aware of the procedures in use by SCB London to send payment messages through the United States.

11. In October 2006, the CEO of SCB Americas, in an email to a Group Executive Director at SCB London entitled "Business with Iran – USA Perspective," stated his view on SCB's provision of banking services, specifically U-Turn payments, to Iranian banks:

"Firstly, we believe this [strategy] needs urgent reviewing at Group level to evaluate if the returns and strategic benefits are...commensurate with the potential to cause very serious or even catastrophic reputational damage to the Group. Secondly, there is equally importantly potential risk of subjecting management in US and London (e.g. you and I) and elsewhere to personal reputational damage and/or serious criminal liability."

12. In addition to the USD clearing activity undertaken for Iranian banks at SCB London, SCB's Dubai Branch ("SCB Dubai") operated USD accounts for a number of Iranian banks and other Iranian corporate customers beginning no later than 2001, and handled much of the trade finance business involving SCB's Iranian customers. Furthermore, SCB Dubai

maintained USD accounts for customers who transacted with individuals and entities in Sudan and Libya, and sent USD payments through the United States destined for such individuals and entities in apparent violation of U.S. sanctions in place at the time. SCB Dubai used cover payments to process wires through the United States for these customers when destined for beneficiaries outside the United States. It appears that SCB Dubai utilized the same payment practice regardless of whether the payments involved interests of parties subject to U.S. sanctions or not. The practice resulted in banks in the United States being unaware of the possible U.S. sanctions implications of such payments. SCB Dubai processed USD payments where the beneficiary was located in the United States with serial payments that did not identify information implicating sanctions.

13. SCB Dubai did not have adequate controls in place to prevent prohibited payments from being sent through the United States when using cover payments, nor did it have adequate controls in place to ensure serial payments destined for beneficiaries in the United States contained the information necessary for its U.S. correspondent to assess the sanctions implications of such transfers. Some of the payments sent by SCB Dubai's Iranian customers were destined for beneficiaries within the United States and were sent via MT 103s to U.S. beneficiary banks. There was typically no indication of the originating customers' Iranian nexus in payment messages to the U.S. beneficiary banks, and no indication that SCB Dubai attempted to ascertain the permissibility under U.S. sanctions of the payments it was sending. Thus, the U.S. banks would generally not have been in a position to identify the involvement of an Iranian entity and, as a result, processed hundreds of transactions in apparent violation of OFAC's regulations that were sent by SCB Dubai involving Iranian entities.

14. Some SCB Dubai employees expressed concerns related to the lack of controls and the risk this caused the bank's New York branch when processing payments. SCB Dubai's Regional Head of Financial Crime and Risk raised this concern in an email to SCB Dubai's Cash Management Operations Manager, stating: "I am concerned that we might be breaking the sanctions. We may not be exactly breaking the law, but we may be breaking the spirit of the law and may possibly get our NY branch into hot water."

15. A July 2005 paper, prepared as part of an internal review commenced in May 2005, entitled "Sanctions compliance report," which laid out the findings of an internal review undertaken by SCB that year to determine the level of compliance with sanctions by various SCB offices, concluded: "Some [legal & compliance] teams are entirely unfamiliar with sanctions. The businesses in the UAE have received no training." The report also observed that although SCB Dubai had distributed a Group sanctions policy, it did not maintain up-to-date local sanctions policies or papers.

16. In March 2006, SCB London ended the process of "repairing" Iranian payments but continued to process Iranian U-Turn payments pursuant to the U-Turn General License in place at the time. In October 2006, the bank decided to terminate its Iranian USD business.

17. Separately and unrelated to the above matters, between February 28, 2011, and April 5, 2011, SCB NY processed eight funds transfers totaling \$243,506.69 in which Connect

Telecom General Trading LLC ("Connect Telecom") had an interest. OFAC designated Connect Telecom pursuant to the Foreign Narcotics Kingpin Sanctions Regulations ("FNKSR") on February 18, 2011. Two of the apparent violations were payments rejected by SCB's Dubai branch that passed through SCB NY a second time on their way back to the originator. SCB NY stated that the six original payments stopped in the bank's interdiction filter, but were released due to human error.

18. OFAC has reason to believe that SCB's conduct described above resulted in transactions prohibited by Executive Orders and/or regulations promulgated pursuant to the International Emergency Economic Powers Act ("IEEPA"), 50 U.S.C. §§ 1701-06, and the Foreign Narcotics Kingpin Designation Act ("FNKDA"), 21 U.S.C. §§ 1901-08.

19. From on or about August 5, 2003, to on or about May 24, 2005, SCB processed five electronic funds transfers, in the aggregate amount of \$59,642, through financial institutions located in the United States, in apparent violation of the prohibition against "the exportation or reexportation of financial services to Burma, directly or indirectly, from the United States...", 31 C.F.R. § 537.202.

20. From on or about January 4, 2001, to on or about November 13, 2007, SCB processed a combined 283 electronic funds transfers, in the aggregate amount of \$96,665,537, to the benefit of persons in Sudan, through financial institutions located in the United States in apparent violation of the prohibition against the "exportation or re-exportation, directly or indirectly, to Sudan of...services from the United States," 31 C.F.R. § 538.205.

21. From on or about January 11, 2001, to on or about April 27, 2004, SCB processed 135 electronic funds transfers in the aggregate amount of \$12,349,361, to the benefit of the Government of Libya and/or persons in Libya, through financial institutions located in the United States in apparent violation of the now-repealed prohibition against the exportation of "...goods, technology ... or services ... to Libya from the United States...", 31 C.F.R. § 550.202 (repealed 2005).

22. From on or about January 26, 2001, to on or about December 31, 2007, SCB processed 488 electronic funds transfers in the aggregate amount of \$24,002,250, to the benefit of the Government of Iran and/or persons in Iran, through a financial institution located in the United States in apparent violation of the prohibition against the "exportation ..., directly or indirectly, from the United States ... of any ... services to Iran or the Government of Iran," 31 C.F.R. § 560.204.

23. Separately and unrelated to paragraphs 19 through 22, as explained in paragraph 17, from on or about February 28, 2011, to on or about April 5, 2011, SCB processed eight electronic funds transfers in the aggregate amount of \$243,506.69, in apparent violation of the prohibition against dealing in property and interests in property of a "specially designated narcotics trafficker" by a United States person, or within the United States, of the FNKSR, 31 C.F.R. § 598.203.

24. The apparent violations described in this Agreement were voluntarily self-disclosed to OFAC within the meaning of OFAC's Economic Sanctions Enforcement Guidelines (the "Guidelines"). *See* 31 C.F.R. part 501, App A.

25. The apparent violations by SCB described above undermined U.S. national security, foreign policy, and other objectives of U.S. sanctions programs.

26. SCB has taken remedial action by terminating its business and prohibiting new business since 2007 with Iranian customers, and other persons or entities subject to sanctions administered by OFAC; and strengthening its bank-wide sanctions compliance controls by implementing enhanced policies and procedures, customer due diligence, automated transaction and customer screening, training, and assurance.

27. SCB cooperated with OFAC by conducting an historical review and identifying in writing transactions that appeared to violate OFAC sanctions; providing substantial and well-organized information regarding the apparent violations for OFAC's assessment; waiving attorney-client privilege in order to provide OFAC with all relevant information; waiving the statute of limitations with respect to certain of the apparent violations described above; and by responding to multiple inquiries and requests for information.

28. OFAC had not issued a penalty notice or Finding of Violation against SCB in the five years preceding the apparent violations.

### III. TERMS OF SETTLEMENT

IT IS HEREBY AGREED by OFAC and SCB that:

29. SCB has terminated the conduct described in paragraphs 3 through 16 above and has put in place, and agrees to maintain, policies and procedures that prohibit, and are designed to minimize the risk of the recurrence of, similar conduct in the future.

30. SCB has also addressed the conduct described in paragraph 17 above.

31. SCB agrees to provide OFAC with copies of all submissions to the Board of Governors of the Federal Reserve System ("Board of Governors") in the same form provided to the Board of Governors pursuant to the "Order to Cease and Desist Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as Amended," to SCB on December 10, 2012, by the Board of Governors (Docket Nos. 12-069-B-FB; 12-069-B-FBR; 12-069-CMP-FB) relating to the OFAC compliance review related thereto. It is understood that the United Kingdom's Financial Services Authority, as the home country supervisor of Standard Chartered plc, is assisting the Board of Governors in the supervision of its Order.

32. Without this Agreement constituting an admission or denial by SCB of any allegation made or implied by OFAC in connection with this matter, and solely for the purpose

of settling this matter without a final agency finding that a violation has occurred, SCB agrees to pay the amount of \$132,000,000 for any civil liability arising out of the apparent violations of IEEPA, the Executive Orders, and the Regulations referenced in this Agreement. SCB's obligation to pay such settlement amount to OFAC shall be satisfied by its payment of an equal or greater amount in satisfaction of penalties assessed by U.S. federal or county officials arising out of the same pattern of conduct.

33. Should OFAC determine, in the reasonable exercise of its discretion, that SCB has willfully and materially breached its obligations under paragraphs 31 or 32 of this Agreement, OFAC shall provide written notice to SCB of the alleged breach and provide SCB with 30 days from the date of SCB's receipt of such notice, or longer as determined by OFAC, to demonstrate that no willful and material breach has occurred or that any breach has been cured. In the event that OFAC ultimately determines that a willful and material breach of this Agreement has occurred, OFAC will provide notice to SCB of its determination, and this Agreement shall be null and void, and the statute of limitations waiver signed concurrently herewith shall remain in effect.

34. OFAC agrees that, as of the date that SCB satisfies the obligations set forth in paragraphs 31 through 32 above, OFAC will release and forever discharge SCB from any and all civil liability, under the legal authorities that OFAC administers, in connection with any and all violations arising from or related to the conduct disclosed to OFAC during the course of the investigation, including that described in paragraphs 3 through 17 above and the alleged violations described in paragraphs 19 through 23 above.

35. SCB waives any claim by or on behalf of SCB, whether asserted or unasserted, against OFAC, the U.S. Department of the Treasury, and/or its officials and employees arising out of the facts giving rise to this Agreement, including but not limited to OFAC's investigation of the apparent violations and any possible legal objection to this Agreement at any future date.

#### **IV. MISCELLANEOUS PROVISIONS**

36. The provisions of this Agreement shall not bar, estop, or otherwise prevent OFAC from taking any other action affecting SCB with respect to any and all violations not arising from or related to the conduct described in paragraphs 3 through 17 above or violations occurring after the dates of that conduct. The provisions of this Agreement shall not bar, estop, or otherwise prevent other U.S. federal, state, or county officials from taking any other action affecting SCB.

37. Each provision of this Agreement shall remain effective and enforceable according to the laws of the United States of America until stayed, modified, terminated, or suspended by OFAC.

38. No amendment to the provisions of this Agreement shall be effective unless executed in writing by OFAC and by SCB.

39. The provisions of this Agreement shall be binding on SCB and its successors and assigns.

40. No representations, either oral or written, except those provisions as set forth herein, were made to induce any of the parties to agree to the provisions as set forth herein.

41. This Agreement consists of 8 pages and expresses the complete understanding of OFAC and SCB regarding resolution of the alleged violations arising from or related to the conduct described in paragraphs 3 through 17 above. No other agreements, oral or written, exist between OFAC and SCB regarding resolution of this matter.

42. OFAC, in its sole discretion, may post on OFAC's website this entire Agreement or the facts set forth in paragraphs 3 through 28 of this Agreement, including the identity of any entity involved, the satisfied settlement amount, and a description of the alleged violations. OFAC also may issue a press release including this information or any other information that OFAC deems appropriate.

43. Use of facsimile signatures shall not delay the approval and implementation of the terms of this Agreement. In the event any party to this Agreement provides a facsimile signature, the party shall substitute the facsimile with an original signature. The Agreement may be signed in multiple counterparts, which together shall constitute the Agreement. The effective date of the Agreement shall be the latest date of execution.

44. All communications regarding this Agreement shall be addressed to:

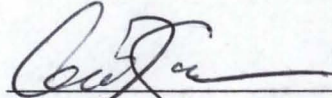
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AGREED:



Dr. Tim Miller  
Director, Property, Research & Assurance



Adam J. Szubin  
Director  
Office of Foreign Assets Control

DATED: 7/20/2012

DATED: 12/10/12