



Challenge for banks is to prove they are not guilty

THE financial industry is witnessing more challenges in recent times such as the AML compliance issues and Libor rigging issue. Recently there were allegations that Standard Chartered banking unit violated US anti-money laundering laws by scheming with Iran to hide more than \$250 billion of transactions. We witnessed the market capitalisation of Standard Chartered Bank fall by as much as \$17 billion when New York's bank regulator threatened to dissolve its state banking licence for the alleged secret transactions tied to Iran.

The response from Standard Chartered Group is also quite interesting, which strongly rejected the position or the facts as set out in the order issued by the New York State Department of Financial Services. The Standard Chartered Group also highlighted that they approached all relevant US agencies, including the New York State Department of Financial Services, and informed them that they had initiated a review of historical US dollar transactions and their compliance with US sanctions.

Such reviews primarily focused on Iran transactions between 2001-07 and their compliance with U-turn framework. U-turn exemption permitted US banks to process payments from Iranian entities so long as the transactions were initiated offshore and passed through the US only for dollar clearing before being routed back to banks offshore. However the U-turn exemption was revoked in 2008. The challenge for banks is to demonstrate that they are not guilty in these transactions.

In the previous month HSBC was alleged to have acted as financier to clients seeking to route shadowy funds from the world's most secretive corners such as Mexico, Iran, and the Cayman Islands etc. From 2001 to 2007 HSBC banks made almost 25,000 transactions involving nearly \$20 billion sent to Iran in defiance of



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US sanctions. Earlier in 2010 securities with high returns were sold in one of the branches of Citibank India to high network individuals, which turned out to be a scam on account of failure in following the KYC/AML guidelines while opening accounts.

With globalisation, breaking down of barriers with regard to exchange control and more sophisticated avenues of investments like derivatives and mutual funds, tracking suspicious transactions is bound to become more challenging, bankers need to be more diligent and vigilant.

The existing AML procedures require a revisit in the light of current developments. A sound AML programme should focus on new

account opening procedures, sustained customer — identification, customers risk rating, transaction monitoring and reporting, enhanced due diligence, customer vetting and record keeping. Internal controls, customer due diligence, the independent anti-money laundering audit function, monitoring of remote deposit capture and dealings with foreign correspondent banking are some of the areas which needs attention from AML perspective.

Banking products and services that help customers to easily convert cash to monetary instruments or to rapidly move funds from one geography to another can present a potentially higher risk of money laundering. Electronic banking exposes to risk of non-compliance of anti-money laundering laws.

The recent Libor rigging issue had also shaken the financial industry.

The writer is Group CEO at Doña Bank. Views expressed by the author are his own and do not reflect the newspaper's policy

