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Business

France's BNP Paribas to pay $8.9 billion to U.S. for sanctions violations

By Danielle Douglas June 30, 2014

France's BNP Paribas pleaded guilty Monday to concealing billions of dollars in transactions for clients in Sudan, Iran and Cuba in violation of U.S. sanctions and agreed to pay $8.9 billion in fines, according to the Justice Department.

The agreement includes a rare year-long suspension of the bank's ability to convert foreign currency into U.S. dollars through its New York office, a step that could potentially cripple one of the bank's chief functions.

Prosecutors say BNP, France's largest bank, went to elaborate lengths to disguise illicit transactions with sanctioned countries.

BNP used a network of banks in the Middle East, Europe and Africa with their own clearing codes to mask dollar-based transfers connected to Sudanese companies. Employees also removed information from wire transfers that could have revealed the identity of the countries blacklisted by the United States, according to the complaint.

"These activities significantly undermined long-standing U.S. economic sanctions, in many cases to the detriment of America's national security interests," Attorney General Eric H. Holder Jr. said at a news conference Monday. "They continued for years, despite repeated indications and warnings that the bank's conduct violated U.S. embargoes."

BNP pleaded guilty to conspiring to violate the International Emergency Economic Powers Act and the Trading with the Enemy Act by processing billions of dollars in illicit transactions from 2004 to 2012.

The plea agreement, filed in federal court in the Southern District of New York, requires the bank to pay a $140 million fine and forfeit $8.8 billion, an amount equal to the transactions that prosecutors identified as criminal. New York's Department of Financial Services, which regulates the bank, identified $190 billion in transactions that broke federal and state laws, including false books and records violations.

As a part of the settlement, the New York agency's chief, Benjamin M. Lawsky, required BNP to fire 13 bank employees involved in the scheme, including Chief Operating Officer Georges Chodron de Courcel. Lawsky also imposed the dollar-clearing suspension, which takes effect in 2015, in lieu of stripping BNP of its banking license.

Monday's settlement involved several state and federal agencies, including the FBI and the Manhattan district attorney's office. About half of the $8.9 billion fine will go to the Justice Department and the Federal Reserve, while the remainder will be divided among the New York authorities.

In the lead-up to the settlement, French authorities implored their U.S. counterparts to consider the repercussions that severe punishment of the bank could have on the European economy.

In May, French Finance Minister Michel Sapin met with Lawsky to plead for leniency. A month earlier, French President François Hollande wrote President Obama to appeal for a penalty proportionate to the misconduct. Obama told the European media that the case was in the hands of the Justice Department.

Suspending BNP's dollar-clearing operations — a critical step in transferring money to clients' suppliers, processing loan payments and various other transactions — adds a new dimension to the government's effort to hold banks accountable for wrongdoing. Preventing an investment bank from engaging in one of its most basic business functions, which could result in the loss of customers and millions in revenue, is arguably more damaging than levying a big fine.

Lawsky made that argument in a speech to the Exchequer Club of Washington in March, explaining that "new and creative corporate penalties" could promote the "broader objective of deterring misconduct." At the time, Lawsky said his office was considering a dollar-clearing ban in cases where the service was used to launder money.

Federal prosecutors said they received an anonymous tip about BNP's misdeeds in 2009 and informed the bank of its investigation shortly after. But they said the bank dragged its feet in cooperating with the probe and ending the alleged misconduct, behavior that factored into the hefty fine.

For its part, BNP said it conducted an internal review that led to the reprimand of a number of managers and employees, some of whom have left the bank. BNP said it also designed new compliance and control procedures.

"We deeply regret the past misconduct that led to this settlement," Jean-Laurent Bonnafé, chief executive of BNP, said in a statement. "The failures that have come to light in the course of this investigation run contrary to the principles on which BNP Paribas has always sought to operate."

BNP's $8.9 billion fine eclipses the penalties imposed on other banks for similar misconduct. HSBC, which was accused of laundering money for Mexican drug cartels, previously received the stiffest penalty when it struck a $1.9 billion settlement with Justice.