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UBS Libor-rigging settlement exposes pervasive bank fraud

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UBS, the largest bank in Switzerland, announced Wednesday it had agreed to a $1.5 billion settlement with regulators in three countries, admitting that between 2005 and 2010 it intentionally manipulated the London Interbank Offered Rate (Libor), the most important global interest rate.

A report issued by the British Financial Services Authority (FSA) on the settlement provides voluminous documentation, in the form of emails and instant message exchanges, of the falsification on virtually a daily basis of UBS' submissions to the British Bankers' Association (BBA), which oversees Libor.

The settlement comes six months after a $450 million deal between regulators and Barclays, the fourth-largest global bank, to settle charges that it similarly manipulated Libor.

UBS and Barclays are among some 20 major financial institutions under investigation for colluding to manipulate the benchmark rate, including HSBC, Royal Bank of Scotland, Deutsche Bank, Credit Suisse, Bank of Tokyo-Mitsubishi, Sumitomo Mitsui, JPMorgan Chase, Citigroup and Bank of America.

The Libor scandal has laid bare the rampant criminality in the operations of the world's major banks and exposed the fact that the so-called "free market" is rigged by the most powerful banks and corporations for their own profit.

The Libor rate, which is set daily in London under the auspices of the BBA, a private banking lobby, is supposed to reflect the average cost of loans between major banks. An estimated $800 trillion in financial products are linked to Libor. These include $10 trillion in mortgages, student loans and credit cards. About 90 percent of US commercial and mortgage loans are linked to the index.

Between 2005 and 2007, Barclays, UBS and other banks systematically inflated their borrowing cost estimates to the Libor board in order to drive up the Libor rate and increase their profits on derivatives linked to it. After 2007, when the global financial crisis intensified, the banks lowballed their submissions to Libor in order to mask their financial weaknesses and lower their borrowing costs.

By manipulating the rate upward, the banks robbed countless millions of people of billions of dollars in inflated loan costs. By manipulating the rate downward, they deprived states, cities, pension funds and retirees with fixed investments of untold billions in revenues from bond holdings.

The settlements with both Barclays and UBS—expected to be followed by similar deals with other banks under investigation—enable the banks to pay a small fraction of their revenues and avoid any criminal charges. Not a single leading executive at either bank has been named or indicted for his or her role in defrauding the world.

In the case of UBS, the US Justice Department made a point of not criminally charging UBS itself, instead obtaining a guilty plea only from its Japanese subsidiary. Only two mid-level UBS employees have been criminally charged.

This is in keeping with the policy of shielding the global financial elite pursued by the US and governments around the world since the Wall Street crash of September 2008. That meltdown, triggered by reckless and illegal speculative activities, plunged the world economy into slump and devastated the living standards of tens of millions of workers in the US and internationally. Yet not a single leading banker has been prosecuted, let alone jailed.

To settle the charges relating to its manipulation of Libor, UBS will pay $1.2 billion to US authorities, $260.2 million in fines to the British Financial Services Authority, and $64.6 million to Swiss regulators.

In its report, the FSA said the total fines against UBS were larger than those imposed on Barclays because "UBS' misconduct is, although similar in nature, considerably more serious… More individuals, including managers and senior managers, participated in or knew about the manipulation."

The FSA noted that UBS employees not only collaborated internally in falsifying Libor submissions, but the bank also "made corrupt payments of £15,000 per quarter to brokers to reward them for their assistance for a period of at least 18 months."

The report cited specific exchanges, such as an email from September 18, 2008 in which a UBS trader told a broker at another firm: "if you keep [the Libor rate] unchanged today… I will f___g do one humongous deal with you… Like a 50,000 buck deal, whatever… I need you to keep it as low as possible… if you do that… I'll pay you, you know, 50,000 dollars, 100,000 dollars… whatever you want … I'm a man of my word."

The FSA reported noted: "There was a culture where the manipulation of the Libor and Euribor (the euro equivalent of the dollar-denominated Libor) setting process was pervasive. The manipulation was conducted openly and was considered to be a normal and acceptable business practice by a large pool of individuals."

In an email published in relationship to last June's Barclays settlement, one trader said that for every .01 percent Libor was changed, the bank would receive "about a couple of million dollars."

Libor was created in 1984 to provide a common basis for valuing a broad range of complex securities, including interest rate swaps and derivatives, which had sprung up during the decade's finance boom. In keeping with the global policy of deregulation and "self-regulation," the Libor-setting process was placed under the control of the BBA, a private British banking lobby dominated by the most powerful London-based banks, and based on daily reports submitted by major international banks.

Given the scale and pervasiveness of the manipulation of Libor by virtually every major bank in the world, it is impossible to credibly claim that financial regulators and governments were unaware of the fraud that was being perpetrated. On the contrary, documents requested by a US House of Representatives committee and released last July by the Federal Reserve Bank of New York and the Bank of England, following the announcement of the Barclays settlement, showed that both institutions knew of the Libor-rigging as early as 2007.

The documents included emails from Barclays employees to the New York Fed and the Bank of England alerting them to the falsification of Libor submissions. Outside of a pro-forma letter from the New York Fed to the Bank of England in June of 2008, nothing was done to halt the practice.

On Wednesday, the *Financial Times* published internal emails at the New York Fed from 2008 discussing the rigging of Libor by banks.

The president of the New York Fed at the time wasTimothy Geithner,

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