LIBOR - UBS

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UBS fined £160 million for significant failings in relation to LIBOR and EURIBOR.

The Financial Services Authority (FSA) has fined UBS AG (UBS) £160 million for misconduct relating to the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offered Rate (EURIBOR). This is the largest fine imposed by the FSA yet. UBS's breaches of the FSA's requirements covered a number of issues and involved a significant number of employees including traders, managers and senior managers who were involved in, or aware of, the practice to influence LIBOR and EURIBOR submissions. The misconduct occurred between 1 January 2005 – 31 December 2010 ("relevant period") in various locations around the world including Japan, Switzerland, the UK and the USA.

The FSA concluded that UBS's traders routinely made requests to the people responsible for its LIBOR and EURIBOR submissions to adjust their submissions to benefit trading positions. For instance, during the relevant period, at least 800 requests, from at least 17 individuals (4 of whom were managers) were made with respect of JPY LIBOR. During the same period more than 115 requests were made in connection with USB's GBP, CHF, EUR and USD LIBOR and EURIBOR submissions.

However, such misconduct was not confined to internal requests within UBS. UBS, through 4 of its traders colluded with interdealer brokers to attempt to influence JPY LIBOR submissions of other banks. These brokers were in regular contact with various panel banks that also contributed JPY LIBOR submissions. The FSA concluded that during the relevant period, UBS traders were directly involved in making more than 1,000 documented requests to 11 brokers at 6 different broker firms.

UBS, through one of its traders also colluded with individuals at other panel banks to make submissions in relation to JPY LIBOR that benefited UBS's trading positions. The FSA highlighted that 80 external requests were documented. At times broker requests and external requests were co-ordinated with internal requests.

UBS, through some of its traders, employed methods which would secure the co-operation of traders at other panel banks when attempting to influence JPY LIBOR submissions. For instance UBS's traders would enter into facilitation trades that aligned their respective commercial interests so that both sides would benefit from the intended manipulation of JPY LIBOR. In addition, UBS made illegal payments to brokers to reward them for their efforts to assist in the manipulation.

The FSA also found that UBS adopted LIBOR submissions directives whose primary purpose was to protect the bank's reputation by avoiding negative media concern. The FSA point to one of the directives dubbed "err on the low side" which was intended to result in lower LIBOR submissions and to keep UBS within "the middle of the pack".

Failure of UBS's systems and controls played a crucial part in the widespread manipulation of LIBOR and EURIBOR as the roles of determining UBS's LIBOR and EURIBOR submissions were given to traders whose positions made a profit or loss depending on LIBOR/EURIBOR fixes. This combination of roles was an inherent flaw within the organisation.

We would be interested to hear from any individuals and/or organisations which have entered into LIBOR/EURIBOR referenced direct interest rate derivatives contracts (forward rate agreements, swaps, options and futures), exchange traded interest rate contracts and floating rate note holders with UBS (US Dollar, Yen, Sterling, Euro and CHF) between January 2005 and December 2010.

Relevant Sources:

1. FSA Press Release
2. FSA Final Notice for UBS
3. U.S Commodity Futures Trading Commission (CFTC) Press Release
4. CFTC Settlement with UBS
5. U.S. Department of Justice (DOJ) Press Release
6. DOJ Statement of Facts
