Banks to Pay $3.3 Billion in FX-Manipulation Probe

By Suzi Ring and Liam Vaughan - Nov 12, 2014

Regulators in the U.S., Britain and Switzerland ordered five banks to pay about $3.3 billion in the first wave of penalties since authorities began a global probe into the rigging of key foreign-exchange benchmarks last year.

Switzerland’s UBS AG (UBSN) was ordered to pay the most at $800 million, according to statements from the U.S. Commodity Futures Trading Commission, Britain’s Financial Conduct Authority and the Swiss Financial Market Supervisory Authority. Citigroup Inc. (C) will pay $668 million, followed by JPMorgan Chase & Co. (JPM) at $662 million. Royal Bank of Scotland Group Plc was fined about $634 million and HSBC Holdings Plc (HSBA) $618 million.

More banks and individuals could still face further penalties and litigations following the 17-month probe into allegations dealers at the biggest banks colluded with counterparts at other firms to rig benchmarks used by fund managers to determine what they pay for foreign currency. Barclays Plc (BARC), which had been in talks to settle, said today it wasn’t ready to reach a deal with regulators, while Deutsche Bank AG is among firms still being investigated.

“This isn’t the end of the story,” FCA Chief Executive Officer Martin Wheatley told BBC Radio Four today. He called on banks to cut pay for employees in the businesses involved. “The individuals themselves will face the consequences,” he said. “If they don’t take this into account, we won’t approve their bonus process.”

The U.S. Justice Department and Britain’s Serious Fraud Office are carrying out criminal investigations into misconduct in the $5.3 trillion-a-day currency market. Finma said it has started enforcement proceedings against 11 UBS employees, and the U.S. Office of the Comptroller of the Currency may also announce penalties later today.

‘Less Optimistic’

“Many will see this as drawing a line under this sad episode,” said Tim Dawson, an analyst at Helvea SA in Geneva who covers financial firms. “We are less optimistic,” he said. The banks are “likely to face a heavy burden of potential litigation in coming years.”

Barclays fell 2.4 percent to 229.05 pence as of 8:47 a.m. in London trading. UBS rose 0.2 percent to 16.78 francs in Zurich, while RBS was little changed at 377.80 pence.
Separately, the Bank of England dismissed its chief foreign exchange dealer, Martin Mallett, who has worked at the bank for almost 30 years. He was faulted in a report by Anthony Grabiner for failing to alert his superiors that currency traders were sharing information about client orders.

**WM/Reuters Rates**

Mallett didn’t immediately respond to e-mails and telephone calls seeking comment. A spokesman for the bank said Mallett’s dismissal wasn’t linked to Grabiner’s report but in relation to an internal disciplinary process unrelated to foreign-exchange.

The probes, initially into whether traders colluded to manipulate the WM/Reuters benchmark rates, have expanded to include whether traders used confidential information to take bets on unauthorized personal accounts, and whether sales desks charged clients excessive commissions. More than 30 traders have been fired, suspended, put on leave, or resigned since the probes began last year.

The FCA said its fines relate to “ineffective” controls at the banks between Jan. 1, 2008 and Oct. 15, 2013 that allowed the banks to put their “interests ahead of those of their clients, other market participants and the wider U.K. financial system.” These failings allowed traders at the banks to behave “unacceptably,” the FCA said.

**Sharing Information**

“They shared information about clients’ activities which they had been trusted to keep confidential and attempted to manipulate G-10 spot foreign-exchange currency rates, including in collusion with traders at other firms, in a way that could disadvantage those clients and the market,” the FCA said.

Today’s settlement includes the FCA’s largest-ever fines and marks first time the FCA has entered into a group bank settlement. Previously, the regulator’s largest fine was a 160 million-pound penalty against UBS over the manipulation of the London interbank offered rate in 2012.

The FCA said it plans to “progress” its probe into Barclays, which wasn’t part of the settlement, to cover its wider foreign exchange trading business.

“We will continue to engage with these authorities, including the FCA and CFTC, with the objective of bringing this to resolution in due course,” Barclays said in a statement.

Deutsche Bank Chief Financial Officer Stefan Krause told analysts on Oct. 29 the bank’s conduct in foreign-exchange was less severe than peers.

**‘Severely Violated’**

UBS, Switzerland’s largest bank, was ordered to give up 134 million Swiss francs ($139 million)
in profit after the Zurich-based bank “severely violated” the requirement for proper business conduct in currency markets, Finma said.

The six banks, including Barclays, have set aside about $5.3 billion in recent weeks for legal matters, including the currency investigations.

The fines come more than two years after the first banks settled with U.K. and US authorities over allegations they rigged the London interbank offered rate, a benchmark interest rate used in $300 trillion of securities including swaps and home loans. A dozen firms have so far been fined at least $6.5 billion in investigations related to Libor and its derivatives.

The Libor investigations, which have not yet concluded, sparked a broader review of dozens of benchmarks used in markets from oil to precious metals.

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