UBS AG became the second bank to settle accusations that it tried to rig benchmark interest rates, agreeing to pay roughly $1.5 billion in a deal with authorities in multiple countries.

The giant Swiss bank, along with Switzerland’s main financial regulator, announced the agreement early Wednesday morning.

As part of the deal, UBS said that some of its employees attempted to manipulate the London interbank offered rate, or Libor, as well as other benchmark rates, which together serve as the basis for interest rates on hundreds of trillions of dollars of financial contracts around the world. UBS’s unit in Japan, where much of the attempted manipulation took place, pleaded guilty to one count of fraud relating to manipulation of benchmark rates including the yen Libor.

In the U.S., law-enforcement authorities on Wednesday are expected to arrest people with ties to UBS, likely representing the first time that anyone faces criminal charges stemming from the long-running rate-fixing investigation, according to people familiar with the case.

The UBS settlement—which UBS reached with the U.S. Justice Department and Commodity Futures Trading Commission, the U.K. Financial Services Authority and the Swiss Financial Market Supervisory Authority—is likely to be the first in a string of such deals between big banks and regulators in coming months.

Until Wednesday, only one other bank, Barclays PLC, had settled charges that it tried to rig benchmark rates. Barclays last June paid roughly $450 million to resolve the investigations. An ensuing public furor over the scale of the wrongdoing and the involvement of senior bank executives, both of which Barclays acknowledged, led to the abrupt resignations of Barclays’s chief executive and his top deputy, as well as the bank’s chairman.

UBS is paying a fine that is more than triple what Barclays paid, despite previously having reached partial immunity agreements with authorities in the U.S. and elsewhere. The penalty’s large size at least partly reflects authorities’ conviction that the Swiss bank was near the center of the scandal, with employees helping to coordinate attempted rate-manipulation at other banks, according to people briefed on the investigation. Among other things, UBS was accused Wednesday of trying to manipulate the Japanese yen iteration of Libor.

The guilty plea by UBS’s Japanese subsidiary is a milestone in authorities’ efforts to crack down on banks for improper behavior during the financial crisis. It’s extremely rare for authorities to pursue criminal sanctions against large companies. Indictments are often regarded as a death sentence for institutions, especially those like
Libor: What You Need to Know

What it is: Libor—the London interbank offered rate benchmark—is supposed to measure the interest rates at which banks borrow from one another. It is based on data reported daily by a 16-bank panel. Other interest rate indexes, like the Euribor (Euro interbank offered rate) and the Tibor (Tokyo interbank offered rate), function in a similar way.

Why it’s important: More than $800 trillion in securities and loans are linked to the Libor, including $350 trillion in swaps and $10 trillion in loans, including auto and home loans, according to the CFTC. Even small movements—or inaccuracies—in the Libor affect investment returns and borrowing costs, for individuals, companies and professional investors.

In a sign of what authorities view as UBS’s centrality, one of the bank’s former Tokyo-based traders, Thomas Hayes, was arrested last week by British fraud prosecutors as part of their investigation into rate-rigging, according to people familiar with the case. Mr. Hayes hasn’t been charged with a crime, but U.K. authorities are examining whether he played a role coordinating attempted manipulation among multiple different banks, these people said. Mr. Hayes, who also worked at Citigroup Inc., hasn’t been available for comment.

The investigations over banks’ attempted rate-rigging kicked off in 2008, after articles in The Wall Street Journal raised questions about the reliability of Libor. Since then, it has mushroomed into arguably the marquee financial scandal of recent times.

Libor and its brethren are calculated every weekday by panels of banks. Each bank estimates what it would cost to borrow from fellow banks. Those estimates are compiled into an average, stripping out the highest and lowest figures. The result underpins interest rates on everything from residential mortgages to corporate loans to complex derivatives.

Banks tried to manipulate the benchmarks for at least two reasons, according to regulatory filings in several countries. Barclays, for example, at times understated its borrowing costs during the financial crisis to assuage concerns that higher costs were a sign of financial distress. Separately, traders at some banks sought to manipulate rates to increase profits on their portfolios of derivatives and other products whose values are tied to the benchmarks.

In addition to Barclays and UBS, more than a dozen other banks remain under investigation by authorities in the U.S., U.K., Switzerland, the European Union, Japan, Canada and other countries. In addition to Libor, the euro interbank offered rate, or Euribor, and the Tokyo interbank offered rate, known as Tibor, also have faced scrutiny.

Royal Bank of Scotland Group PLC is likely next in line to settle the allegations, with a deal expected early in 2013, according to people familiar with that investigation.

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