UBS to Plead Guilty on Libor, Fined by Fed in Currency Probe

by Jeffrey Voegeli and Elena Logutenkova
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UBS Group AG said its main unit will plead guilty to fraud in the U.S. for manipulating benchmark interest rates and pay $203 million in fresh fines after the Swiss bank violated an agreement that had allowed it to avoid prosecution.

UBS received conditional immunity in a separate U.S. antitrust probe into currency rigging, the bank said in statement Wednesday, avoiding more fines as a reward for cooperating with authorities. However it will pay $342 million to the Federal Reserve and undertake remedial measures in connection with the foreign exchange misconduct.

The currency investigation led the U.S. Justice Department to scrap a 2012 non-prosecution agreement with UBS that was designed to settle an earlier probe into the rigging of the London interbank offered rate, or Libor. The deal was conditional on the bank not committing further U.S. crimes during the next two years. The foreign exchange probe began less than a year later.

It’s the first time the Justice Department has revoked a non-prosecution agreement in the banking industry and signals its determination to crack down on repeat offenders. UBS said it will plead guilty to one count of wire fraud and accept a three-year probation in the Libor settlement.

“It’s disappointing they’ve had to plead guilty on a separate charge on Libor,” said Christopher Wheeler, an London-based analyst at Atlantic Equities LLP in an interview with Bloomberg Television on Wednesday. “Sadly the reputational damage has been done.”

’Unacceptable Conduct’

UBS said it has no need to set aside further provisions for the settlements and that they would have no financial impact on second-quarter earnings. Rising legal costs have been a burden on earnings since the financial crisis and a stumbling block for Chief Executive Officer Sergio Ermotti in boosting profitability.

“The conduct of a small number of employees was unacceptable and we have taken appropriate disciplinary actions,” Ermotti and UBS Chairman Axel Weber said in the joint statement. “We made significant investments to strengthen our control framework and compliance programs.”

UBS is the first of five global banks expected to announce settlements Wednesday with U.S. authorities
over allegations of manipulating foreign exchange rates, people with knowledge of the discussions have said. Citigroup Inc., JPMorgan Chase & Co., Barclays Plc and Royal Bank of Scotland Group Plc will probably enter pleas related to antitrust violations, the people said.

The Libor and currency probes were two of the biggest legal threats UBS faced as it scales back activities in investment banking, the business that led prosecutors to its doorstep. The bank continues to cooperate with other authorities in the industrywide matter, including investigations of individuals.

“The key disappointment is that legal risks persist for longer, and do not allow UBS to fully enjoy the benefits of its good operational performance,” said Alevizos Alevizakos, a London-based analyst at Keefe Bruyette & Woods Inc. in a note this week. He estimated UBS will need 4.2 billion francs in additional litigation provisions before 2018.

Wednesday’s settlements bring UBS’s bill for attempting to manipulate markets to more than $2.8 billion. That includes $1.7 billion in the Libor case and the $800 million UBS paid last year to U.S., U.K. and Swiss regulators over its role in rigging foreign exchange rates.

The Justice Department has come under criticism in recent years for the deferred- and non-prosecution agreements it has reached with banks, with lawmakers and other critics saying the deals weren’t an adequate deterrent. The government counters that the agreements lead to oversight and cooperation that otherwise wouldn’t be possible.