



Department of Justice



FOR IMMEDIATE RELEASE
WEDNESDAY, FEBRUARY 6, 2013
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RBS SECURITIES JAPAN LIMITED AGREES TO PLEAD GUILTY
IN CONNECTION WITH LONG-RUNNING MANIPULATION
OF LIBOR BENCHMARK INTEREST RATES

*Second Financial Institution to Plead Guilty to LIBOR Fraud and Pay
Substantial Criminal Penalties*

RBS Parent Company Also Admits Fault in Deferred Prosecution Agreement

WASHINGTON – RBS Securities Japan Limited, a wholly owned subsidiary of The Royal Bank of Scotland plc (RBS), has agreed to plead guilty to felony wire fraud and admit its role in manipulating the Japanese Yen London Interbank Offered Rate (LIBOR), a leading benchmark used in financial products and transactions around the world, Assistant Attorney General Lanny Breuer of the Justice Department’s Criminal Division, Deputy Assistant Attorney General Scott D. Hammond of the Justice Department’s Antitrust Division and Special Agent in Charge Timothy A. Gallagher of the FBI’s Washington Field Office Criminal Division announced today.

A criminal information, being filed in U.S. District Court for the District of Connecticut, charges RBS Securities Japan with one count of wire fraud for engaging in a scheme to defraud counterparties to interest rate derivatives trades by secretly manipulating Yen LIBOR benchmark interest rates. RBS Securities Japan has signed a plea agreement with the government admitting its criminal conduct, and has agreed to pay a \$50 million fine.

In addition, the government is filing a criminal information in the District of Connecticut which charges parent company RBS as part of a deferred prosecution agreement (DPA). The information charges RBS with wire fraud for its role in manipulating LIBOR benchmark interest rates, and with participation in a price-fixing conspiracy in violation of the Sherman Act by rigging the Yen LIBOR benchmark interest rate with other banks. The DPA requires the bank to admit and accept responsibility for its misconduct as described in an extensive statement of facts, to continue cooperating with the Justice Department in its ongoing investigation and to pay a \$100 million penalty beyond the fine imposed upon RBS Securities Japan.

Together with approximately \$462 million in regulatory penalties and disgorgement – \$325 million as a result of a Commodity Futures Trading Commission (CFTC) action and approximately \$137 million as a result of a U.K. Financial Services Authority (FSA) action – the

Justice Department's criminal penalties bring the total amount of the resolution with RBS and RBS Securities Japan to approximately \$612 million.

"As we have done with Barclays and UBS, we are today holding RBS accountable for a stunning abuse of trust," said Assistant Attorney General Breuer. "The bank has admitted to manipulating one of the cornerstone benchmark interest rates in our global financial system, and its Japanese subsidiary has agreed to plead guilty to felony wire fraud. The department's ongoing investigation has now yielded two guilty pleas by significant financial institutions. These are extraordinary results, and our investigation is far from finished. Our message is clear: no financial institution is above the law."

"RBS secretly rigged the benchmark interest rates upon which many transactions and consumer financial products are based," said Deputy Assistant Attorney General Hammond. "RBS' conduct not only harmed its unsuspecting counterparties, it undermined the integrity and the competitiveness of financial markets everywhere."

"The manipulation of LIBOR by RBS and its subsidiary directly affected the rates referenced by financial products held by and on behalf of American companies and investors. The FBI works to uncover wrongdoing such as this in order to protect American consumers and the integrity of financial markets," said Special Agent in Charge Gallagher. "Today's announcement is the result of the hard work of the FBI special agents, financial analysts, and forensic accountants as well as the prosecutors who dedicated significant time and resources to investigating this case."

According to court documents, LIBOR is an average interest rate, calculated based upon submissions from leading banks around the world, reflecting the rates those banks believe they would be charged if borrowing from other banks. LIBOR serves as the primary benchmark for short-term interest rates globally, and is used as a reference rate for many interest rate contracts, mortgages, credit cards, student loans and other consumer lending products. The Bank of International Settlements estimated that as of the second half of 2009, outstanding interest rate contracts were valued at approximately \$450 trillion.

LIBOR, published by the British Bankers' Association (BBA), a trade association based in London, is calculated for 10 currencies at 15 borrowing periods, known as maturities, ranging from overnight to one year. The LIBOR for a given currency at a specific maturity is the result of a calculation based upon submissions from a panel of banks for that currency (the Contributor Panel) selected by the BBA. From at least 2006 through 2010, RBS has been a member of the Contributor Panel for a number of currencies, including Yen LIBOR and Swiss Franc LIBOR, which are the focus of the plea agreement and DPA.

According to the filed charging documents, at various times from at least 2006 through 2010, certain RBS Yen and Swiss Franc derivatives traders – whose compensation was directly connected to their success in trading financial products tied to LIBOR – engaged in efforts to move LIBOR in a direction favorable to their trading positions. Through these schemes, RBS allegedly defrauded counterparties who were unaware of the manipulation affecting financial products referencing Yen and Swiss Franc LIBOR. The alleged schemes included hundreds of

instances in which RBS employees sought to influence LIBOR submissions in a manner favorable to their trading positions in two principal ways: internally at RBS through requests by derivatives traders for Yen and Swiss Franc LIBOR submissions, and externally through an agreement with a separately charged derivatives trader to request Yen LIBOR submissions. The trader, Tom Alexander William Hayes, was formerly employed by a Japanese subsidiary of another Contributor Panel bank, UBS AG (UBS).

According to court documents, RBS employees engaged in this conduct through electronic communications, which included both emails and electronic chats. For example, in an electronic chat on March 16, 2009, an RBS Swiss Franc derivatives trader, (Trader-7), sought to benefit his trading book by asking the RBS LIBOR submitter (Submitter-1), “can we pls get a very very very low 3m [3 month] and 6m [6 month] fix today [please]” because “we have rather large fixings!” Submitter-1 responded, “perfect, if that’s what u want.” After thanking Submitter-1, Trader-7 informed Submitter-1 that “from tomorrow . . . we need them thru the roof!!!!”

In another electronic chat on May 20, 2009, involving an RBS Yen derivatives trader, (“Trader-2”), Submitter-1, and others, the following exchange occurred:

Trader-2: high 3s and low 6s pls [Submitter-1]

Submitter-1: no problems

Trader-2: grazias amigo . . . where will you lower 6s to?

Submitter-1: 70

That day, RBS’s 6-month Yen LIBOR submission dropped two basis points from .72 to .70, before reverting to .72 the following two days.

RBS employees also allegedly furthered their collusive scheme with Hayes to fix the price of derivative instruments tied to Yen LIBOR through electronic communications. For instance, in an electronic chat on April 20, 2007, Hayes requested that an RBS derivatives trader, (“Trader-3”), ask Submitter-1 for a low 3 month Yen LIBOR submission:

Hayes: . . . if you could ask your guys to keep 3m low wd be massive help as long as it doesn’t interfere with your stuff . . . tx in advance.

Approximately 30 minutes later, Hayes and Trader-3 had the following exchange:

Hayes: mate did you manage to spk to your cash boys?

Trader-3: yes u owe me they are going 65 and 71

Hayes: thx mate yes i do . . . in fact i owe you big time

Approximately 45 minutes later, Hayes sent the following message to Trader-3:

Hayes: mater they set 64! . . . thats beyond the call of duty!

* * * *

Trader-3: no worries

By entering into a DPA with RBS, the Justice Department credits RBS' cooperation in disclosing LIBOR misconduct within the financial institution, recognizes the significant remedial measures undertaken by RBS' management to enhance internal controls, and acknowledges the additional reporting, disclosure and cooperation requirements undertaken by the bank. The DPA does not prevent the Justice Department from prosecuting individuals for related conduct.

The pending charges against Hayes are merely accusations and he is considered innocent unless and until proven guilty.

The prosecution of RBS is being handled by Deputy Chief Patrick Stokes and Trial Attorney Gary Winters of the Criminal Division's Fraud Section, and New York Field Office Assistant Chief Elizabeth Prewitt and Trial Attorneys Eric Schleef and Richard Powers of the Antitrust Division. Deputy Chiefs Daniel Braun and William Stellmach, Assistant Chief Rebecca Rohr and Trial Attorney Alex Berlin of the Criminal Division's Fraud Section, Trial Attorneys Daniel Tracer and Kristina Srica of the Antitrust Division, Jeremy Verlinda of the Antitrust Division's Economic Analysis Group, Assistant U.S. Attorneys Eric Glover and Liam Brennan of the U.S. Attorney's Office for the District of Connecticut and the Criminal Division's Office of International Affairs have also provided valuable assistance in this matter. The investigation is being conducted by special agents, forensic accountants and intelligence analysts of the FBI's Washington Field Office.

The investigation leading to these cases has required, and has greatly benefited from, a diligent and wide-ranging cooperative effort among various enforcement agencies both in the United States and abroad. The Justice Department acknowledges and expresses its deep appreciation for this assistance. In particular, the CFTC's Division of Enforcement referred this matter to the department and, along with the FSA, has played a major role in the investigation. The Securities and Exchange Commission has also played a significant role in the LIBOR series of investigations. Various agencies and enforcement authorities from other nations are also participating in different aspects of the broader investigation relating to LIBOR and other benchmark rates, and the department is grateful for their cooperation and assistance.

This prosecution is part of efforts underway by President Barack Obama's Financial Fraud Enforcement Task Force. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just

and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets and recover proceeds for victims of financial crimes. For more information about the task force visit: www.stopfraud.gov.

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