



U.S. COMMODITY FUTURES TRADING COMMISSION
ENSURING THE INTEGRITY OF THE FUTURES & OPTIONS MARKETS

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July 28, 2014

CFTC Charges Lloyds Banking Group and Lloyds Bank with Manipulation, Attempted Manipulation, and False Reporting of LIBOR

Banks agree to a \$105 million settlement and agree to changes in systems and controls



Washington, DC -- The U.S. Commodity Futures Trading Commission (CFTC) today issued an Order against **Lloyds Banking Group plc** and **Lloyds Bank plc**, formerly known as Lloyds TSB Bank plc (Lloyds TSB), bringing and settling charges for acts of false reporting and attempted manipulation of the London Interbank Offered Rate (LIBOR) for Sterling, U.S. Dollar, and Yen committed by employees of Lloyds TSB and HBOS plc (HBOS), which was acquired by Lloyds Banking Group in January 2009. The Order finds that, in a few instances, Lloyds TSB was successful in its manipulation of Sterling LIBOR and Yen LIBOR. The CFTC also brought and settled charges that Lloyds TSB, at times, aided and abetted the attempts of derivatives traders at Rabobank to manipulate Yen LIBOR.

The Order requires Lloyds Banking Group and Lloyds Bank to pay a \$105 million civil monetary penalty, cease and desist from their violations of the Commodity Exchange Act, and to adhere to specific undertakings to ensure the integrity of LIBOR submissions in the future.

"By today's action, Lloyds is being held accountable for serious misconduct," said Aitan Goelman, CFTC Director of Enforcement. "The CFTC remains committed to taking all actions necessary to ensure the integrity of the markets we oversee."

The unlawful conduct of Lloyds Banking Group and Lloyds Bank undermined the integrity of LIBOR, a critical global interest rate benchmark that is the basis of trillions of dollars of financial instruments. The CFTC Order finds that Lloyds Banking Group and Lloyds Bank, through Lloyds TSB and HBOS, attempted to manipulate LIBOR, at times successfully, to benefit cash and derivatives trading positions. The Order also finds that HBOS altered and lowered its Sterling and U.S. Dollar LIBOR submissions to protect its reputation at the time HBOS was being acquired by Lloyds Banking Group. ***(Excerpts of submitter communications follow this release.)***

In a related action, the U.S. Department of Justice (DOJ) entered into a deferred prosecution agreement with Lloyds Banking Group, deferring criminal wire fraud charges in exchange for Lloyds Banking Group continuing to cooperate and agreeing to an \$86 million penalty. In addition, the United Kingdom Financial Conduct Authority (FCA) issued a Final Notice regarding its enforcement action against Lloyds Bank and Bank of Scotland plc (a subsidiary of HBOS) and imposed collectively on both firms a penalty of £105 million (approximately \$179 million).

Highlights of the CFTC's Order

- Before the acquisition of HBOS by Lloyds Banking Group in January 2009, the Sterling and U.S. Dollar LIBOR submitters at each bank individually altered LIBOR submissions on occasion to benefit the submitters' and traders' cash and derivatives trading positions. Upon the consolidation of the two companies, the submitters, who were located in separate offices, coordinated with one another to adjust LIBOR submissions to benefit their respective trading positions.
- From at least mid-2006 to October 2008, the Lloyds TSB Yen LIBOR submitter colluded with the Yen LIBOR Submitter at Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) to adjust their respective Yen LIBOR submissions to benefit the trading positions of Lloyds TSB and Rabobank.
- During the global financial crisis in the last quarter of 2008, HBOS, through the acts of its

submitters and a manager, improperly altered and lowered HBOS's Sterling and U.S. Dollar LIBOR submissions to create a market perception that HBOS was relatively financially healthy and not a desperate borrower of cash. Specifically, the manager who supervised the HBOS Sterling and U.S. Dollar LIBOR submitters directed the submitters to make LIBOR submissions at the rate of the expected published LIBOR so that the bank did not stand out as a material outlier from the rest of the submitting banks. The submitters followed these instructions, making submissions through the end of the year that did not reflect their honest assessment of HBOS's cost of borrowing unsecured interbank funds, and, accordingly, were not consistent with the BBA LIBOR definition.

- In 2006, Lloyds TSB and HBOS submitters on certain occasions increased their bids for Sterling in the cash market in an attempt to manipulate the published Sterling LIBOR fixing higher, thereby benefitting specific trading positions that were tied to Sterling LIBOR.

The Order also recognizes the cooperation of Lloyds Banking Group and Lloyds Bank with the Division of Enforcement in its investigation.

The CFTC acknowledges the valuable assistance of the DOJ, the Washington Field Office of the Federal Bureau of Investigation, and the FCA.

CFTC Division of Enforcement staff members responsible for this case are Jason T. Wright, Anne M. Termine, Jonathan K. Huth, Philip P. Tumminio, Rishi K. Gupta, Maura M. Viehmeyer, Elizabeth Padgett, Jordan Grimm, Terry Mayo, James A. Garcia, Kassra Goudarzi, Boaz Green, Aimée Latimer-Zayets, and Gretchen L. Lowe.

With this Order, the CFTC has now imposed penalties of over \$1.87 billion on entities for manipulative conduct with respect to LIBOR submissions and other benchmark interest rates. See *In re RP Martin Holdings Limited and Martin Brokers (UK) Ltd.*, CFTC Docket No. 14-16 (May 15, 2014) (\$1.2 Million penalty) (CFTC Press Release [6930-14](#)); *In re Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank)*, CFTC Docket No. 14-02, (October 29, 2013) (\$475 Million penalty) (CFTC Press Release [6752-13](#)); *In re ICAP Europe Limited*, CFTC Docket No. 13-38 (September 25, 2013) (\$65 Million penalty) (CFTC Press Release [6708-13](#)); *In re The Royal Bank of Scotland plc and RBS Securities Japan Limited*, CFTC Docket No. 13-14 (February 6, 2013) (\$325 Million penalty) (CFTC Press Release [6510-13](#)); *In re UBS AG and UBS Securities Japan Co., Ltd.*, CFTC Docket No. 13-09 (December 19, 2012) (\$700 Million penalty) (CFTC Press Release [6472-12](#)); *In re Barclays PLC, Barclays Bank PLC, and Barclays Capital Inc.*, CFTC Docket No. 12-25 (June 27, 2012) (\$200 Million penalty) (CFTC Press Release [6289-12](#)). In these actions, the CFTC ordered each institution to undertake specific steps to ensure the integrity and reliability of the benchmark interest rates.

Examples of Misconduct from Written Communications

Examples of Requests for Skewed Sterling LIBOR Submissions

March 6, 2009: (emphasis added)

Former HBOS Sterling Submitter: I am paying on 12 yards of 1s today; a re-fix against Group, so if is there any way of making 1s relatively low, it would be helpful for us all. [. . .] I think it is going to be about 126 or something, maybe 128, it is a tricky one at the moment.

Lloyds TSB Sterling Submitter: Well I could, I mean I have left mine at 125 mate, I mean.

Former HBOS Sterling Submitter: Yeah, well I that will be perfect. As long as you—you can't go lower than 125, if you are going at 125 that is what, that is what I am hoping to shape it down to, so if you can do that, that would be great.

Lloyds TSB Sterling Submitter: Yeah I have got a fixing small one nowhere near 12 yards, so yeah I do it at 25, alright?

Former HBOS Sterling Submitter: And I am a payer the 3s as well, I don't know what were you thinking of going in the 3s. [. . .] I have only 500 quid the 3s so I am not that—it's not the end of the world, but if you're the other way around don't worry about it.

Lloyds TSB Sterling Submitter: No, no, no, I have got a small loan going out but it is less than that, alright I will probably have to go 90- probably 96 but I will let you know before, I do 25 definitely for 1s and I will speak to you on—

Former HBOS Sterling Submitter: Yeah don't stress mate, go 25 in the 1s and just go with what you can in the 3s. No great stress.

Lloyds TSB Sterling Submitter: Yeah, no problem.

Former HBOS Sterling Submitter: Alright thanks.

March 31, 2009: (emphasis added)

Former HBOS Sterling Submitter: [. . .] I was just going to say, **I am receiving on 3s LIBOR today on a couple on—on a big reset on about 2 and a half yards and I am receiving tomorrow on 5 yards, so on the LIBOR front obviously I don't know if you have got anything contrary to that, but if you haven't the firmer the better please.**

Lloyds TSB Sterling Submitter: The higher the better.

Former HBOS Sterling Submitter: Yes please.

Lloyds TSB Sterling Submitter: Oh mate, I have always got loads of loans going out at the end of the month so I always try and fix it higher, so. Trouble is mate they keep calling it fucking lower, I can't work out why it is fucking going down all the time. [. . .] I mean we put 67 in yesterday, **I will leave it at 67 and I won't go any lower, right?**

Former HBOS Sterling Submitter: Yeah.

Lloyds TSB Sterling Submitter: What do you need, and what was the other period, was it all 3s?

Former HBOS Sterling Submitter: No just 3s today and tomorrow.

Lloyds TSB Sterling Submitter: Okay, we will leave it at 67.

Former HBOS Sterling Submitter: Yeah cool, **just 1s I am small receiving today, tomorrow is a massive one in the 1s.** I am paying but we'll worry about 1s tomorrow?

Lloyds TSB Sterling Submitter: **Well luckily not today mate because I have got trillions and billions of 1s going out today, tomorrow I can set it slightly lower.**

Former HBOS Sterling Submitter: Yeah that's cool, I am receiving 1s today in the yard, tomorrow I am paying on 11.5 yards. [. . .] In the 1s but we will worry about it tomorrow, tomorrow.

Lloyds TSB Sterling Submitter: Yeah, okay mate no problem

April 1, 2009:

Lloyds TSB Junior Trader: Just a quick question: do you have lots of 1s fixing today? Do you want us to keep the libor higher?

Former HBOS Sterling Submitter: Yeah, I have a big liability fix, so as low as possible, please. [. . .] But I have a massive asset fix in the 3s, so as high as you can in the 3s.

Lloyds TSB Junior Trader: Oh, right. Okay, okay. Got it.

Examples of Requests for Skewed U.S. Dollar LIBOR Submissions

January 17, 2008:

HBOS Trader: 3mth higher today pls!

HBOS U.S. Dollar Submitter: Should be 92 for guide ill put in 93 to get counted.

May 11, 2009:

Former HBOS U.S. Dollar Submitter to Trader Who Assisted Lloyds TSB U.S. Dollar Submitter: when we have big resets as to be honest we should be coordinating the libor inputs to suit the books. for example later this month i have a 5y 3 month liability reset so we should put in a low one there ill let u know.

May 19, 2009:

Lloyds TSB U.S. Dollar Submitter to Former HBOS U.S. Dollar Submitter: we got the LIBORs down for you.

Examples of Collusion between the Lloyds TSB Yen LIBOR Submitter and the Rabobank Yen LIBOR Submitter

June 27, 2006: (emphasis added)

Rabobank Yen Submitter: just for your info skip...**i need a high 1mth today** - so i will be setting an obseently high 1 mth (6)

Lloyds TSB Yen Submitter: sure mate no worries...**give us an idea where and I'll try n oblige...**;))

July 27, 2006: (emphasis added)

Rabobank Yen Submitter: morning skip....my little ...[racial epithet redacted] friend in tokyo wants a high 1m fix from me today....**am going to set .37 - just for your info sir**

Lloyds TSB Yen Submitter: **that suits mate as got some month end fixings so happy to ablige..rubbery jubbery...-O**

January 5, 2007:

Rabobank Yen Submitter: need a high 1mth fix today mate - just for info ;)

Lloyds TSB Yen Submitter: suits (bu)

Rabobank Yen Submitter: (b)

Lloyds TSB Yen Submitter: just b4 you beat me up....I was in meeting so didn't do me libors today...thk they put .52 for 1s....

March 19, 2008: (emphasis added)

Rabobank Yen Submitter: **[Rabobank Senior Yen Trader] needs a high 6m libor if u can help skip - asked me to set 1.10**

Lloyds TSB Yen Submitter: **oops my 6s is 1.15!!! he'll love me**

Rabobank Yen Submitter: hahaha so di il

Lloyds TSB Yen Submitter: send him my regards the lovely fella....

March 28, 2008: (emphasis added)

Rabobank Yen Submitter: morning skip – **[Rabobank Senior Yen Trader] has asked me to set high libors today** - gave me levels of 1m 82, 3m 94....6m 1.02

Lloyds TSB Yen Submitter: **sry mate can't oblige today...I need em lower!!!**

Rabobank Yen Submitter: yes was told by jimbo...just thought i'd let you know why mine will be higher ...and you don't get cross with me

Lloyds TSB Yen Submitter: never get cross wiv yer mate

June 27, 2006: (emphasis added)

Lloyds TSB Yen Submitter: **mrng mate...my turn today...what u going 3s libor...hoping for a higher one....0.35 or u think that is pushing it a bit?**

Rabobank Yen Submitter: nope - **fine with me mate - will set 35 for you** (b)

Lloyds TSB Yen Submitter: (K) cheers dude

Rabobank Yen Submitter: no prob at all mate ;)

July 19, 2007:

Lloyds TSB Yen Submitter: mrng beautiful....if u can would love a low fixing in 3s libor today....(y)

Rabobank Yen Submitter: ok skip - what u need? no prob

Lloyds TSB Yen Submitter: .77 if poss but just no higher than yest!!

January 7, 2008: (emphasis added)

Lloyds TSB Yen Submitter: **plse may i have a nice high 1m libby today..grovel grovel...(k). [. .]**

Rabobank Yen Submitter: yes nice and toasty....what would you like me to set for 1m mate? i've gone **70 so far**....or hogher?

Lloyds TSB Yen Submitter: **thats fine..thx lad xx**

Examples of Communications Relating to HBOS Lowering Its U.S. Dollar and Sterling LIBOR Submissions to Protect Its Market Reputation

May 6, 2008:

HBOS Senior Manager to Two Other HBOS Senior Managers and Other HBOS

Personnel: it will be readily apparent that in the current environment no bank can be seen to be an outlier. The submissions of all banks are published and we could not afford to be significantly away from the pack.

August 8, 2008: (emphasis added)

HBOS Senior Manager to HBOS Managers and Senior Managers: As a bank we are extremely careful about the rates we pay in different markets for different types of funds as paying too much risks not only causing a re-pricing of all short term borrowing but, more importantly in this climate, **may give the impression of HBOS being a desperate borrower and so lead to a general withdrawal of wholesale lines.**

September 26, 2008:

HBOS U.S. Dollar LIBOR Submitter to an Employee of Another Financial Institution: youll like this ive been pressured by senior management to bring my rates down into line with everyone else.

October 21, 2008:

HBOS LIBOR Supervisor to HBOS Sterling LIBOR Submitters: do not want to be an outlier in BBA submissions - this could potentially create an issue with buyers of our paper.

October 30, 2008:

HBOS LIBOR Supervisor HBOS LIBOR Submitters: continue to post levels at or slightly above the level we will pay for deposits or issue [certificates of deposit].

Footnote from page 6 of the CFTC Order: The communications quoted in this Order contain shorthand trader language and many typographical errors. The shorthand and errors are explained in brackets within the quotations only when deemed necessary to assist with understanding the discussion.

Media Contact

Dennis Holden
202-418-5088

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