



# Commodity Futures Trading Commission

## Office of Public Affairs

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## Examples of RBS's USD ISDAFIX Misconduct<sup>1</sup>

### RBS's Traders Knew and Openly Acknowledged That They Were Attempting to Manipulate the USD ISDAFIX.

- On July 25, 2007, the CFTC announced it was charging the hedge fund Amaranth with attempted manipulation of the price of natural gas futures.<sup>2</sup> That same day, an RBS swaps trader converted a news story about the lawsuit into a prescient “joke” where RBS took the place of Amaranth as the manipulator sued by the government. The trader emailed this “joke” to other RBS swaps traders and Swaps Broker employees:

Amaranth tried to Manipulate Gas Prices, CFTC Says...

[RBS Swaps Trader (“Swaps Trader 1”)] tried for manipulating ISDAFIX3 settlement . . . [Swaps Trader 1] is on a recorded line shouting, “GET THE NINES DOWN [Broker], GET THE NINES DOWN, NOW NOW NOW”. RBS could not be reached for comment.

- The email shows that the trader understood that RBS engaged in unlawful attempts to manipulate USD ISDAFIX rates.
- The language attributed to Swaps Trader 1 resembles the type of language that particular trader sometimes used when trading at 11:00 a.m. As Swaps Trader 1 described his own conduct at 11:00 a.m. on a day he had tried to manipulate the USD ISDAFIX “You should have heard me, I was standing up, everybody’s staring at me, I’m like . . . at the top of my lungs . . . move the f\*cking screen . . . mine the bonds<sup>3</sup>, mine the bonds, move the f\*cking . . . screen.”

### RBS Traders Understood Their Trading at 11:00 A.M. Could Have an Adverse Impact on Their Counterparties.

- In one taped call between a RBS swaps trader—and, during his tenure, the head of the swap desk—and their primary broker at Swaps Broker (“Swaps Broker 1”), Swaps Broker 1 denigrated a trader at another bank who had had a “swing and a miss” at 11:00 a.m. and had been unsuccessful in an effort to move swap spread levels. The RBS swaps trader and Swaps Broker 1 then simulated an interview in which the RBS trader described their attempts to manipulate the USD ISDAFIX to a prospective employer:

<sup>1</sup> Unless otherwise indicated, quotations in the USD ISDAFIX Order and these examples are drawn from electronic communications and audio recordings of telephone calls.

<sup>2</sup> CFTC Press Release 5359-07. “U.S. Commodity Futures Trading Commission Charges Hedge Fund Amaranth and its Former Head Energy Trader, Brian Hunter, With Attempted Manipulation of the Price of Natural Gas Futures” (July 25, 2007) *available at* <http://www.cftc.gov/PressRoom/PressReleases/pr5359-07>.

<sup>3</sup> “Mine the bonds” is a way a trader can indicate that they are buying—by saying mine—30-year swap spreads (referred to as bonds by swaps traders).

RBS swaps trader: Huh, Amateur . . . I'm kidding. I'm going to put that on my resume; really good at the 11 o'clocks

Both: Laughing

Swaps Broker 1: What are the 11 o'clocks? You know, we try and...we f\*ck with it a little bit.

RBS Swaps Trader: Laughing

Swaps Broker 1: We try and like take somebody's eyes out pretty much

RBS swaps trader: [Inaudible.]

Both: Laughing

Swaps Broker 1: You're hired

- An RBS options trader bragged to his supervisor—then a senior manager at the firm—that he had “*had a big 11 am, we like tried to f\*ck [bank counterparty] a little bit.*”
- An RBS options trader sent an instant message to a colleague that the options desk had had a “*big cash settle with [bank counterparty] . . . and we skrood [sic.] them bigtime.*...so I think [RBS options trader] is scrambling to make himself look better . . . *reputation and all that crap.*”

### RBS's Non-Bank Counterparties Were Unaware That RBS Was Attempting to Move USD ISDAFIX Settings to the Detriment of The Counterparties

- One RBS options trader in explaining cash settlement to another RBS trader, noted that RBS did not “actually have that many interbank cash settles and when we do, on average we tend to do badly.” He added that “*with clients we do okay but they have no idea that it's off,*” referring to the fact that RBS's non-bank counterparties were unaware that RBS was attempting to move USD ISDAFIX settings to their detriment.

### RBS Traders Also Understood That Trading With Intent to Affect The USD ISDAFIX Could Have An Impact on Other Market Participants Who Relied on USD ISDAFIX Rates.

- An RBS swaps trader informed an RBS colleague that they should avoid transacting at 11:00 a.m. because “Options expirations happen right at 11 and we get lots of screen games from options players.”
- An RBS swaps trader wrote “*awesome—love it when corporates get boned by the 11:00 screen games,*” to a non-RBS employee, when he learned that an upcoming corporate bond pricing—in which a corporate bond's price would be determined in part by swap spread prices—would take place “right at 11.”

### RBS Traders Understood That by Using Swap Spreads and/or Treasury Trading It Was Possible to Move the USD ISDAFIX Rate

- One RBS employee wrote “the way to move isdafix is to hit or lift spreads on the screen, and do the opposite in tsy, b/c that is how the rate is derived[sic].”
- One RBS trader bragged to another RBS swaps trader upon learning that RBS's profitability on a financing transaction would be determined in part by the USD ISDAFIX levels:

- *“ISDAFIX is like f\*\*king, you know, it’s job done now, you know . . . we’ll have one guy working the treasuries . . . I’ll be in the screens with [Swaps Broker 1] working the ISDAFIX screen . . . spreads . . . if we’re sitting there hammering 12, 15s, 20s and stuff like that that’s f\*\*king easy.... We’ll jack up all the spreads, hit the notes down, ISDAFIX prints.”*

### **RBS Options Trader Would Ask RBS Swaps Traders to Move Swap Spread Prices in Particular Directions**

- Recorded conversations and electronic communications show that RBS options traders would ask RBS swaps traders based in Stamford to move the swap spread prices in a particular direction. At various times during the relevant period, RBS option traders informed RBS swaps traders that, for example:
  - An RBS options trader told an RBS swaps trader: “10s as low as possible and 7s as high possible.” The options trader had also noted that “I don’t really need the spreads or anything” indicating that while he wanted to affect the USD ISDAFIX settings he did not have a need to buy the swap spreads.
  - An RBS options trader told an RBS swaps trader: “For 11 a.m. I need to have bond spreads as low as possible and 5 year spreads as high as possible.” (In the parlance of swaps traders, “Bond spreads” refers to 30-year swap spreads.)
  - An RBS options trader told an RBS swaps trader: “I have a cash settle in 7s, I have 400 7s, Okay, I need the 7s higher.”

### **RBS Swaps Traders Would Tell Their Brokers at Swaps Broker the Intent of Their Trading at 11:00 A.M.**

- RBS swaps traders told Swaps Broker 1:
  - “I want to see if I can get them [10 years] up to ¼.”
  - “I’m going to have to get 10s higher and 7s lower.”
- RBS swaps traders would typically identify RBS’s target print, the amount that RBS was willing to spend to achieve that print (sometimes referred to as “ammo”), whether RBS wanted to use less than the full amount of “ammo” if possible, and discuss with the broker when the broker should trade to optimize their chances of getting their desired screen result.
- Some RBS Swaps Traders would discuss with Swaps Broker 1 the particular strategy they would use at 11:00 a.m. in order to obtain their intended result
  - On one occasion, the Swaps Broker 1 advised that “I think you can get 7s down without trading.”
  - In one instance after Swaps Broker 1 stated that in order to move the price “we’ll just try to get it timed right.” The RBS swaps trader asked if Swaps Broker 1 thought seven seconds before 11:00 a.m. would be the best timing. The broker responded that he thought it would be best to trade “before that” and they agreed to begin trading nine—rather than seven—seconds before 11:00 a.m.
  - On one occasion in June 2008 Swaps Broker 1 stated that he and Swaps Trader 1 “looked like a couple of rookies” because Swaps Broker 1 was unsure of what Swaps Trader 1 wanted him to do,

noting to the trader that “usually you and I have a conversation about what you want to do”.

### RBS Traders Traded U.S. Treasuries to Affect the USD ISDAFIX

- One RBS employee asked a junior options trader, in apparent reference to more senior options traders, “*were they doing the treasury thing to get isdafix to move?*”
- One approach used by RBS traders was to trade as few treasuries as possible to move the treasury screen at 11:00 a.m. so it reflected the more favorable of the bid and offered sides of the market at the exact moment of the USD ISDAFIX setting.
  - An RBS options trader wrote about this approach and described how RBS traded treasuries when they had a cash settlement.
  - “Say we have 500 10s that we’re long and they’re cash settling, we’ll try to buy as few as possible to get the offered side to print and hit the spread down too, that way you get the print on the right side and still get to keep the rest of the risk and get out better.”
  - RBS traders sometimes limited the amount of its treasury trading at 11:00 a.m. to the amount necessary to obtain a particular price result—*i.e.*, “buy as few as possible to get the offered side to print,” and thus buy some amount at the higher (offered) rate—and transact the remainder at another time, at lower rates.
- On at least one occasion, when RBS traders sought an even greater impact on USD ISDAFIX than moving the treasury rates to the better of the bid or offer, they attempted to move the ISDAFIX by what they referred to as “trading through the stack.”
  - This technique used more “ammo,” but as Swaps Trader 1 explained to another RBS trader when he instructed the trader to trade through the stack to affect treasury prices, “[i]t should drill it right down.”

### Swaps Traders Were Directly Involved in an Attempt to Move Multiple US Treasury Rates at 11:00 am as Part of an Attempt to Move the USD ISDAFIX

- On one occasion two RBS swaps traders explained to a third how they had used a combination of trading through the stacks and repeated trading to influence treasury prices—and therefore the USD ISDAFIX—for a transaction linked to 11:00 a.m. USD ISDAFIX rates.
- Swaps Trader 1 told another RBS swaps trader that “we taught [the two London-based RBS swaps traders] how to trade through the stack because there wasn’t [sic] really enough of us to do it all, so we had to move [inaudible] the screens as well.” (Moving the screens is a reference to moving swap spreads by trading through Swaps Broker.)
- A RBS swaps trader described the results of their efforts on treasury rates: “*We f\*cking murdered it.*”
- Swaps Trader 1 provided a more detailed description of their trading that day. The traders had divided the amount they were willing to trade among three traders using multiple strategies.
- First, they allocated to one trader half of the “delta”—in this context the amount they were planning to trade near 11:00 a.m.—which he then used over a roughly two minute period to attempt to influence the 30-year U.S. Treasury Rates. As one swaps trader stated:

Basically what we had, we did, did is, we gave [RBS swaps trader], [RBS swaps trader] took half the delta. He was selling for about two minutes beforehand. [RBS swaps trader] did a great job, **he was knocking the f\*cking 30s down**, he was selling 24s and 25s all the way down to 19 so we got it off at 19.

- “Knocking” the prices of 30-year U.S. treasuries down would increase the yield on 30-year U.S. Treasuries, and would also increase the 30-year USD ISDAFIX rate.
- Swaps Trader 1 then explained that—in addition to having a swaps trader trading 30-year treasuries before 11:00 a.m.—they had also allocated a certain amount of trades to the two London-based RBS swaps traders the express purpose of “trading through the stack” in the seconds before 11:00 a.m.:

We should have done well, but the best part is, the way we set it up we gave [RBS swaps trader] half the delta we gave [London-based RBS swaps trader] like 400s, 500 10s and [the other London-based RBS swaps traders] 200 bonds and we taught them how to trade through the stack, so all they did was sit back and let [RBS swaps trader] hit the screens and then like three seconds beforehand we were like hit it and they just went down and traded through the stack with whatever they had for ammo in 10s and 30s...it printed down at 19 in bonds and 15 in 10s.

- “Hitting”—selling—10- and 30-year U.S. Treasuries would increase the yield on those instruments’ tenors, and would thus increase the 10 and 30-year USD ISDAFIX rates.