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FORMER EMPLOYEE OF A FINANCIAL INSTITUTION SUBSIDIARY ARRESTED ON CRIMINAL COMPLAINT FOR ROLE IN FRAUD SCHEME INVOLVING MUNICIPAL BONDS

WASHINGTON — A former employee of a subsidiary of a financial institution was arrested on a criminal complaint at John F. Kennedy International Airport in New York yesterday after entering the United States, announced the Department of Justice. Peter Ghavami, a Belgian national currently residing in Moscow, was arraigned today in U.S. District Court for the Southern District of New York on one count of wire fraud charged in criminal complaint unsealed today. The criminal complaint, filed on Sept. 16, 2010, alleges that Ghavami participated in a scheme to defraud a municipal bond issuer with respect to the investment of municipal bond proceeds.

According to the criminal complaint, from approximately January 2001 through approximately March 2004, Ghavami worked in the municipal derivatives group of the financial institution's subsidiary as managing director and co-head of the municipal bond reinvestment and derivatives desk. The financial institution and its subsidiary acted as a broker of investment agreements and other municipal finance contracts, such as swaps, to public entities. Public entities typically hire a broker to conduct a competitive bidding process for the award of investment agreements to invest money from a variety of sources, primarily the proceeds of municipal bonds that they issued. Competitive bidding for these agreements by major financial institutions, often referred to as providers, is the subject of regulations issued by the U.S. Department of the Treasury and is related to the tax-exempt status of the bonds.

"Pernicious fraud schemes like the one alleged in this complaint undermine the public's confidence and trust in the municipal bond and derivatives markets," said Christine Varney, Assistant Attorney General in charge of the Department of Justice's Antitrust Division. "This type of anticompetitive conduct will be prosecuted to the fullest extent."

According to the court document, Ghavami engaged in a fraudulent scheme beginning on or about Oct. 24, 2001, and continuing to at least Feb. 11, 2002, to deprive a municipal bond issuer of money by causing it to award an investment agreement at an artificially determined or suppressed rate. The municipal bond issuer hired the financial institution subsidiary that Ghavami worked for to act as its broker to conduct a competitive bidding process to select a provider in which to invest proceeds from a municipal bond offering. As a part of the scheme, Ghavami designated in advance which provider would be the winning bidder for a certain investment agreement in exchange for a kickback to be paid to his employer. The undisclosed kickback, in the amount of $100,000, was disguised as a fee and paid in exchange for Ghavami's assistance in manipulating and controlling the bidding process for the investment agreement.

The wire fraud charge with which Ghavami is charged carries a maximum penalty of 20 years in prison and a $250,000 fine. The maximum fine may be increased to twice the gain derived from the crime or twice the loss suffered by the victims of the crime, if either amount is greater than the statutory maximum fine.

To date, eight people have pleaded guilty to charges based on an ongoing investigation into the municipal bond industry, which is being conducted by the Department of Justice's Antitrust Division, the FBI and IRS Criminal Investigation. The department is coordinating its investigation with the Securities and Exchange Commission, the Office of the Comptroller of the Currency and the Federal Reserve Bank of New York.

Three former employees of Beverly Hills, Calif.-based Rubin/Chambers, Dunhill Insurance Services Inc. (CDR) have pleaded guilty to bid-rigging and fraud conspiracies in relation to the ongoing investigation. Five other individuals have pleaded guilty to charges related to the ongoing investigation. In addition, three former financial services executives were indicted on July 27, 2010, for participating in fraud schemes and conspiracies related to the bidding for investment agreements. In October 2009, CDR, two of its employees and one former employee were charged for participating in bid-rigging and fraud conspiracies and related crimes. The CDR trial is scheduled to begin on Sept. 12, 2011.

The ongoing investigation 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 on the task force, visit www.StopFraud.gov.

Anyone with information concerning bid rigging and related offenses in any financial markets should contact the Antitrust Division's New York Field Office at 212-264-0390 or visit www.justice.gov/atr/contact/newcase.htm, or the FBI at 212-384-5000.

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