



Department of Justice



FOR IMMEDIATE RELEASE
FRIDAY, AUGUST 31, 2012
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THREE FORMER UBS EXECUTIVES CONVICTED FOR FRAUDS INVOLVING CONTRACTS RELATED TO THE INVESTMENT OF MUNICIPAL BOND PROCEEDS

WASHINGTON – A federal jury in New York City today convicted three former financial services executives for their participation in frauds related to bidding for contracts for the investment of municipal bond proceeds and other municipal finance contracts, the Department of Justice announced.

Peter Ghavami, Gary Heinz and Michael Welty, all former UBS AG executives, were found guilty on conspiracy and fraud charges in the U.S. District Court in New York City. Ghavami was found guilty on two counts of conspiracy to commit wire fraud and one count of substantive wire fraud. Heinz was found guilty on three counts of conspiracy to commit wire fraud and two counts of substantive wire fraud. Welty was found guilty on three counts of conspiracy to commit wire fraud. Heinz was found not guilty on one count of witness tampering and Welty was found not guilty on one count of substantive wire fraud.

The trial began on July 30, 2012. Ghavami, Heinz and Welty were initially indicted on Dec. 9, 2010.

“For years, these executives corrupted the competitive bidding process and defrauded municipalities across the country out of money for important public works projects,” said Scott D. Hammond, Deputy Assistant Attorney General of the Antitrust Division’s criminal enforcement program. “Today’s convictions demonstrate that the division is committed to holding accountable those who seek to unfairly and illegally undermine competitive markets.”

According to evidence presented at trial, while employed at UBS, Ghavami, Heinz and Welty participated in separate fraud conspiracies and schemes with various financial institutions and with a broker, at various time periods from as early as March 2001 until at least November 2006. These financial institutions, or providers, offered a type of contract—known as an investment agreement—to state, county and local governments and agencies, and not-for-profit entities, throughout the United States. The public entities were seeking to invest money from a variety of sources, primarily the proceeds of municipal bonds that they had issued to raise money for, among other things, public projects. Public entities typically hire a broker to assist them in investing their money and to conduct a competitive bidding process to determine the winning provider.

According to evidence presented at trial, while acting as providers, Ghavami, Heinz and Welty, with their provider and broker co-conspirators, corrupted the bidding process for more than a dozen investment agreements to increase the number and profitability of the agreements awarded to UBS. At other times, while acting as brokers, Ghavami, Heinz, Welty and their co-conspirators arranged for UBS to receive kickbacks in exchange for manipulating the bidding process and steering investment agreements to certain providers.

Ghavami, Heinz and Welty deprived the municipalities of competitive interest rates for the investment of tax-exempt bond proceeds that were to be used by municipalities to refinance outstanding debt and for various public works projects, such as for building or repairing schools, hospitals and roads. Evidence at trial established that they cost municipalities around the country and the U.S. Treasury millions of dollars.

During the trial, the government presented specific evidence relating to approximately 26 corrupted bids and approximately 76 recorded conversations made by the co-conspirator financial institutions. Among the issuers and not-for-profit entities whose agreements or contracts were subject to the defendants' schemes were the Commonwealth of Massachusetts, the New Mexico Educational Assistance Foundation, the Tobacco Settlement Financing Corporation of Rhode Island and the RWJ Health Care Corp at Hamilton.

“Corrupt bidding schemes serve to weaken the public’s trust in the municipal bond market and prevent public entities from enjoying the benefits of a true competitive bidding process,” said Mary E. Galligan, Acting Assistant Director in Charge of the FBI in New York. “Today’s conviction is further proof of our efforts to weed out these corrupt criminals and ensure justice is served.”

“Today’s verdict is important because it confirms that these complex, seemingly uninteresting backroom deals have a real impact on taxpayers, who should benefit from a municipal bond issue and are ultimately responsible for paying it off,” said Richard Weber, Chief, Internal Revenue Service-Criminal Investigation (IRS-CI). “Today’s convictions send a strong message to the municipal bond industry and demonstrates the commitment of the Internal Revenue Service and the Justice Department to rid the industry of corrupt practices.”

A total of 20 individuals have been charged as a result of the department’s ongoing municipal bonds investigation. Including today’s convictions, a total of 19 individuals have been convicted or pleaded guilty, and one awaits trial. Additionally, one company has pleaded guilty.

Two of charged fraud conspiracies carry a maximum penalty per count of 30 years in prison and a \$1 million fine. A third fraud conspiracy charge carries a maximum penalty of five years in prison and a \$250,000 fine. The two wire fraud charges carry a maximum penalty per count of 30 years in prison and a \$1 million fine. These maximum fines per count 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.

The verdict announced today resulted from an ongoing investigation conducted by the Antitrust Division’s New York and Chicago Offices, the FBI and the IRS-CI. The division is coordinating its investigation with the U.S. Securities and Exchange Commission, the Office of the Comptroller of the Currency and the Federal Reserve Bank of New York.

Today's convictions are part of efforts underway by President Obama's Financial Fraud Enforcement Task Force (FFETF) which was created in November 2009 to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. Attorneys' offices and state and local partners, it's the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed more than 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,700 mortgage fraud defendants. 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 212-335-8000, the FBI at 212-384-5000 or IRS-CI at 212-436-1761, or visit www.justice.gov/atr/contact/newcase.html.

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