Department of Justice

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ICAP BROKERS FACE FELONY CHARGES FOR ALLEGED LONG-RUNNING MANIPULATION OF LIBOR INTEREST RATES

WASHINGTON – Two former derivatives brokers and a former cash broker employed by London-based brokerage firm ICAP were charged as part of the ongoing criminal investigation into the manipulation of the London Interbank Offered Rate (LIBOR), the Justice Department announced today.

Darrell Read, who resides in New Zealand, and Daniel Wilkinson and Colin Goodman, both of England, were charged with conspiracy to commit wire fraud and two counts of wire fraud in a criminal complaint unsealed in Manhattan federal court earlier today. They each face a maximum penalty of 30 years in prison for each count upon conviction.

"By allegedly participating in a scheme to manipulate benchmark interest rates for financial gain, these defendants undermined the integrity of the global markets," said Attorney General Eric Holder. "They were supposed to be honest brokers, but instead, they put their own financial interests ahead of that larger responsibility. And as a result, transactions and financial products around the world were compromised, because they were tied to a rate that was distorted due to the brokers' dishonesty. These charges underscore the Justice Department's determination to hold accountable all those whose conduct threatens the integrity of our financial markets."

"These three men are accused of repeatedly and deliberately spreading false information to banks and investors around the world in order to fraudulently move the market and help their client fleece his counterparties," said Acting Assistant Attorney General Mythili Raman of the Justice Department's Criminal Division. "Our criminal investigation of the manipulation of LIBOR by some of the largest banks in the world has led us from New York to London, to Tokyo, and other financial hubs around the globe. These important charges are just the latest law-enforcement action in the Criminal Division and Antitrust Division's global LIBOR investigation, and reflect the Department's continued dedication to detecting, and prosecuting, financial fraudsters who affect U.S. markets, whether they work at a bank, or a brokerage, and whether they carry out their fraud from a desk in the United States, or abroad."

"The complaint unsealed today charges Colin Goodman, Daniel Wilkinson and Darrell Read for conspiring to manipulate benchmark interest rates that determined the profitability of their client's trades," said Scott D. Hammond, Deputy Assistant Attorney General for the Antitrust Division's criminal enforcement program. "In exchange for bigger bonus checks, the three defendants undermined financial markets around the world by compromising the integrity of globally used interest rate benchmarks. The Department continues to demonstrate its commitment to protecting the interest of American citizens in free and fair financial markets."

"Corporate and securities fraud involving the manipulation of these rates causes a worldwide impact on trading positions and erodes the integrity of the market and confidence in Wall Street," said Assistant Director in Charge Valerie Parlave of the FBI's Washington Field Office. "Unraveling such complex financial schemes is difficult and time consuming. Today's charges are the result of the hard work of the FBI special agents and forensic accountants who dedicated significant time and resources to investigating this case."

According to the criminal complaint, LIBOR is an average interest rate, calculated based on submissions from leading banks around the world, reflecting the rates those banks believe they would be charged if borrowing from other banks. LIBOR is published by the British Bankers' Association (BBA), a trade association based in London. At the time relevant to the criminal complaint, LIBOR was calculated for 10 currencies at 15 borrowing periods, known as maturities, ranging from overnight to one year. The published LIBOR "fix" 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.

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 estimated at approximately $450 trillion.

According to allegations in the criminal complaint filed in this case, between July 2006 and September 2010, Wilkinson was a desk director employed in the London office of ICAP, where he supervised a group of derivatives brokers – including Read – specializing in Yen-based financial products. Generally, the desk's clients were derivatives traders at large financial institutions, and the transactions brokered by Wilkinson, Read and others on the desk essentially consisted of bets between traders on the direction in which Yen LIBOR would move. Between July 2006 and September 2009, the desk's largest client was a senior trader at UBS (UBS Trader) in Tokyo, to whom Read spoke almost daily. Because of the large size of the client's trading positions, even slight moves of a fraction of a percent in Yen LIBOR could generate large profits. For example, UBS Trader once told Read that a 0.01 percent – or one basis point – movement in the final Yen LIBOR fixing on a specific date could result in $3 million profit for his trading positions. A significant part of both Read's and Wilkinson's compensation was tied to the brokerage fees generated by UBS Trader and paid to ICAP.

Goodman was a cash broker at ICAP's London office during the relevant time period. In addition to brokering cash transactions, Goodman distributed a daily email to individuals outside of ICAP, including derivatives traders at several large banks as well as those responsible for providing the BBA with LIBOR submissions at certain banks. Goodman's email contained what was termed his "SUGGESTED LIBORS," purported predictions of where Yen LIBOR ultimately would fix each day across eight specified borrowing periods. Read and Wilkinson, along with Goodman himself, often referred to Goodman as "lord libor."

The complaint alleges that Read, Wilkinson and Goodman, together with UBS Trader, executed a sustained and systematic scheme to move Yen LIBOR in a direction favorable to UBS Trader's trading positions.

According to the criminal complaint, the primary strategy employed by Read, Wilkinson and Goodman to execute the scheme was to use Goodman's "SUGGESTED LIBORS" email to disseminate misinformation to Yen LIBOR panel banks in hopes that the banks would rely on the misinformation when making their own respective Yen LIBOR submissions to the BBA for inclusion in the published fix. Rather than providing good faith predictions as to where Yen LIBOR would fix, Goodman instead often used his daily email to set forth predictions which benefitted UBS Trader's trading positions.

Beginning in or about June 2007, Goodman was paid a bonus through the desk Wilkinson supervised, allegedly intended, at least in part, to reward Goodman for his role in their effort to influence and manipulate the published Yen LIBOR fix.

As a second strategy, Read and Wilkinson allegedly further agreed to contact interest rate derivatives traders and submitters employed at Yen LIBOR panel banks in an effort to cause them to make false and misleading submissions to the BBA at UBS Trader's behest.

As alleged in the charging document, Read, Wilkinson, Goodman, UBS Trader, and other co-conspirators often executed their scheme through electronic chats and email exchanges. For example, on June 28, 2007, in an email message, Read told Wilkinson: "DAN THIS IS GETTING SERIOUS [UBS TRADER] IS NOT HAPPY WITH THE WAY THINGS ARE PROGRESSING . . . CAN YOU PLEASE GET HOLD OF COLIN AND GET HIM TO SEND OUT 6 MOS LIBOR AT 0.865 AND TO GET HIS BANKS SETTING IT HIGH. THIS IS VERY IMPORTANT BECAUSE [UBS TRADER] IS QUESTIONING MY (AND OUR) WORTH."

The complaint alleges that the defendants were aware of the effects that Goodman's false and fraudulent "SUGGESTED LIBORS" had on submissions by Yen LIBOR panel banks. For example, on Nov. 20, 2008, Read asked UBS Trader, "you have a really big fix tonight I believe? if Colin sends out 6m at a more realistic level than 1.10 [%] i reckon [the two panel banks] will parrot him, it might mean 6m coming down a bit." On the following day, Nov. 21, 2008, Goodman moved his suggestion for 6-month Yen LIBOR down by nine basis points. The two other banks mirrored Goodman's suggestion, moving their 6-month Yen LIBOR submissions down by nine basis points.

According to allegations in the complaint, Read counseled UBS Trader how to most effectively manipulate Yen LIBOR. For example, UBS Trader told Read in a July 22, 2009, electronic chat that "11th aug is the big date...i still have lots of 6m fixings till the 10th." Read responded to UBS Trader, "if you drop [UBS's] 6m dramatically on the 11th mate, it will look v fishy... . I'd be v careful how you play it, there might be cause for a drop as you cross into a new month but a couple of weeks in might get people questioning you." UBS Trader replied, "don't worry will stagger the drops...ie 5bp then 5bp," and Read told UBS Trader, "ok mate, don't want you getting into [expletive]." UBS Trader again assured Read that UBS and two additional panel banks would stagger their drops in coordination, and Read concluded, "great the plan is hatched and sounds sensible."

A criminal complaint is a formal accusation of criminal conduct, not evidence. A defendant is presumed innocent unless and until convicted.

The investigation is being conducted by special agents, forensic accountants, and intelligence analysts of the FBI's Washington Field Office. The prosecution is being handled by Deputy Chief William Stellmach and Trial Attorney Sandra L. Moser of the Criminal Division's Fraud Section and Trial Attorneys Eric Schleef and Kristina Srica of the Antitrust Division. Trial Attorneys Alexander Berlin and Thomas B.W. Hall, Law Clerk Andrew Tyler, and Paralegal Specialist Kevin Sitarski of the Criminal Division's Fraud Section, along with Assistant Chief Elizabeth Prewitt and Trial Attorney Richard Powers of the Antitrust Division, and former Trial Attorney Luke Marsh have also provided valuable assistance. The Criminal Division's Office of International Affairs has provided assistance in this matter as well.

The broader investigation relating to LIBOR and other benchmark rates 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 Commodity Futures Trading Commission's Division of Enforcement referred this matter to the Department and, along with the U.K. Financial Conduct Authority, has played a major role in the investigation. The Securities and Exchange Commission has also provided valuable assistance for which the Department is grateful. The Department also expresses its appreciation to the United Kingdom's Serious Fraud Office for its assistance and ongoing cooperation. Various agencies and enforcement authorities from other nations are also participating in different aspects of the broader investigation, and the Department is grateful for their cooperation and assistance as well.

Finally, the Department acknowledges ICAP's continuing cooperation in the Department's ongoing investigation.

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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