Department of Justice

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LLOYDS BANKING GROUP ADMITS WRONGDOING IN LIBOR INVESTIGATION, AGREES TO PAY $86 MILLION CRIMINAL PENALTY

WASHINGTON - Lloyds Banking Group plc has entered into an agreement with the Department of Justice to pay an $86 million penalty for manipulation of submissions for the London InterBank Offered Rate (LIBOR), a leading global benchmark interest rate.

Assistant Attorney General Leslie R. Caldwell of the Justice Department's Criminal Division, Deputy Assistant Attorney General Brent Snyder of the Antitrust Division, and Assistant Director in Charge Valerie Parlave of the FBI's Washington Field Office made the announcement.

A criminal information will be filed today in U.S. District Court for the District of Connecticut that charges Lloyds as part of a deferred prosecution agreement (DPA). The information charges Lloyds with wire fraud for its role in manipulating LIBOR. In addition to the $86 million penalty, the DPA requires the bank to admit and accept responsibility for its misconduct as described in an extensive statement of facts. Lloyds has agreed to continue cooperating with the Justice Department in its ongoing investigation of the manipulation of benchmark interest rates by other financial institutions and individuals.

"For more than three years, traders at Lloyds manipulated the bank's LIBOR submissions for three currencies to benefit the trading positions of themselves and their friends, to the detriment of the parties on the other side of the trades," said Assistant Attorney General Caldwell. "Because investors and consumers rely on LIBOR's integrity, rate-rigging fundamentally undermines confidence in financial markets. Lloyds is the fifth major financial institution that has admitted LIBOR manipulation and paid a criminal penalty, and nine individuals have been criminally charged by the Justice Department. Our active investigation continues, as we work to restore trust in the markets."

"Lloyds manipulated benchmark rates, allowing its traders to increase their profits unfairly and fraudulently," said Deputy Assistant Attorney General Brent Snyder of the Justice Department's Antitrust Division. "Lloyds's conduct undermined financial markets domestically and abroad, and today's charges send a clear message that we will continue to bring those responsible to justice."

“Manipulating financial trading markets to create an unfair advantage is against the law,” said Assistant Director in Charge Parlave. “Today’s agreement further underscores the FBI’s ability to investigate complex international financial crimes and bring the perpetrators to justice. The Washington Field Office has committed significant time and resources including the expertise of Special Agents, forensic accountants and analysts to investigate this case along with our Department of Justice colleagues. Their efforts send a clear message to anyone contemplating financial crimes: think twice or you will face the consequences.”

Together with approximately $283 million in criminal and regulatory penalties imposed by other agencies in actions arising out of the same conduct – $105 million by the Commodity Futures Trading Commission (CFTC), and approximately $178 million by the U.K. Financial Conduct Authority (FCA) – the Justice Department’s $86 million criminal penalty brings the total amount to be paid by Lloyds to almost $370 million.

According to signed documents, LIBOR is an average interest rate, calculated based upon submissions from leading banks around the world and reflecting the rates those banks believe they would be charged if borrowing from other banks. 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 valued at approximately $450 trillion.

At the time relevant to the conduct in the criminal information, LIBOR was published by the British Bankers’ Association (BBA), a trade association based in London. LIBOR was calculated for 10 currencies at 15 borrowing periods, known as maturities, ranging from overnight to one year. The LIBOR for a given currency at a specific maturity was the result of a calculation based upon submissions from a panel of banks for that currency (the Contributor Panel) selected by the BBA. From at least 2006 through the present, Lloyds (through its subsidiaries) has been a member of the Contributor Panel for a number of currencies, including United States Dollar LIBOR, Pound Sterling LIBOR, and Yen LIBOR.

According to the statement of facts accompanying the agreement, between at least as early as 2006 and at least as late as July 2009, Lloyds’s LIBOR submitters for Dollar LIBOR, Yen LIBOR, and Pound Sterling LIBOR submitted LIBOR contributions intended to benefit their own trading positions or the trading positions of others, rather than rates that complied with the definition of LIBOR. When Lloyds LIBOR submitters contributed LIBOR submissions to benefit trading positions, the manipulation of the submissions affected the fixed rates on occasion.

According to signed documents, on May 19, 2009, a money markets trader who was a former Dollar LIBOR submitter at a subsidiary of Lloyds wrote to the then-current Dollar LIBOR submitter: “have 5 yard [billion] 3 month liability rolls today so would be advantageous to have lower 3month libor setting if doesn’t conflict with any of your fix’s.” Later that day, the Dollar LIBOR submitter told the money markets trader in a phone call: “obviously we got the Libors down for you.”

In another example, on March 6, 2009, a money markets trader who was a former Pound Sterling LIBOR submitter for a subsidiary of Lloyds told the then-current Pound Sterling LIBOR submitter: “Um, I’m paying on 12 yards [billions] of 1s today, . . . so if there is any way of making 1s relatively low it would just be helpful for us all.” That day, the Pound Sterling LIBOR submitter contributed a rate that was ten basis points lower than the previous day’s submission.

Also according to the statement of facts, a Yen LIBOR submitter and a former submitter at Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) who traded money-markets and derivatives products had an agreement to submit Yen LIBOR contributions that benefitted their respective trading positions, rather than submissions that complied with the definition of LIBOR.

For example, on July 28, 2006, the Rabobank submitter wrote to the Yen LIBOR submitter: “morning skipper.....will be setting an obscenely high 1m again today...poss 38 just fyi.” The Yen LIBOR submitter responded: “(K)...oh dear..my poor customers....hehehe!! manual input libors again today then!!!!” Both banks’ submissions on July 28 moved up one basis point, from 0.37 to 0.38.

This ongoing investigation is being conducted by special agents, forensic accountants, and intelligence analysts of the FBI’s Washington Field Office. The prosecution of Lloyds is being handled by Trial Attorney Patrick Pericak of the Criminal Division’s Fraud Section and Trial Attorney Michael T. Koenig of the Antitrust Division. Assistant U.S. Attorneys Chris Mattei and Michael McGarry of the U.S. Attorney’s Office for the District of Connecticut, along with the Criminal Division’s Office of International Affairs, have provided valuable assistance in this matter.

The investigation leading to these cases 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 CFTC’s Division of Enforcement referred this matter to the department and, along with the FCA, has played a major role in the investigation. Various agencies and enforcement authorities from other nations are also participating in different aspects of the broader investigation relating to LIBOR and other benchmark rates, and the department is grateful for their cooperation and assistance. In particular, the Securities and Exchange Commission has played a significant role in the LIBOR investigation, and the department expresses its appreciation to the United Kingdom’s Serious Fraud Office for its assistance and ongoing cooperation.

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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