FINAL NOTICE

To:	UBS AG
Of:	1 Finsbury Avenue, London, EC2M 2AN
FSA Reference Number:	186958
Date:	19 December 2012

ACTION

1. For the reasons given in this notice, the FSA hereby imposes on UBS AG ("UBS") a financial penalty of £160,000,000 in accordance with section 206 of the Financial Services and Markets Act 2000 (the "Act").

2. UBS agreed to settle at an early stage of the FSA's investigation. UBS therefore qualified for a 20% (stage 2) discount under the FSA's executive settlement procedures. Were it not for this discount, the FSA would have imposed a financial penalty of £200,000,000 on UBS.

SUMMARY OF REASONS

3. The London Interbank Offered Rate ("LIBOR") and the Euro Interbank Offered Rate ("EURIBOR") are benchmark reference rates fundamental to the operation of both UK and international financial markets including markets in interest rate derivatives contracts.

4. The integrity of benchmark reference rates such as LIBOR and EURIBOR is therefore of fundamental importance to both UK and international financial markets.

5. Between 1 January 2005 and 31 December 2010 (the "Relevant Period"), UBS breached Principles 3 and 5 of the FSA's Principles for Businesses through misconduct relating to the calculation of LIBOR and EURIBOR. UBS, acting through

its managers and employees sought to manipulate certain LIBOR currencies and EURIBOR during the Relevant Period. They did so in connection with the submission of rates that formed part of the calculation of LIBOR and EURIBOR. UBS, through four of its Traders, colluded with interdealer brokers in co-ordinated attempts to influence JPY LIBOR submissions made by Panel Banks. In addition, UBS through one of its Traders also colluded with JPY LIBOR Panel Banks directly. UBS's misconduct undermined the integrity of those benchmark reference rates.

Principle 5 breaches

Manipulation of submissions to benefit trading positions

6. UBS acted improperly and breached Principle 5 during the Relevant Period by failing to observe proper standards of market conduct. UBS's Trader-Submitters routinely took the positions of its interest rate derivatives traders ("Traders") into account when making GBP, JPY, CHF and EUR LIBOR and EURIBOR submissions. Traders also sought to influence the JPY LIBOR submissions of other banks. This misconduct took a number of forms.

(a) Manipulation of UBS's own submissions

7. UBS's Traders routinely made requests to the individuals at UBS responsible for determining its LIBOR and EURIBOR submissions to adjust their submissions to benefit their trading positions ("Internal Requests"). During the Relevant Period, more than 800 documented Internal Requests were made in respect of JPY LIBOR. During the same period more than 115 Internal Requests were also made in connection with UBS's GBP, CHF, EUR and USD LIBOR submissions and EURIBOR submissions. More than 40 individuals were directly involved in these Internal Requests.

8. At times, a single Internal Request was made that covered a sustained period of time. For example, on 24 January 2007 in response to a Trader's request about three month and six month JPY LIBOR submissions, Manager A, who was overseeing the Trader Submitter responsible for determining the submissions, replied: "*standing order, sir*."

9. Across the separate currencies for which UBS made LIBOR submissions, the practice of making Internal Requests is broken down as follows across the Relevant Period:

   a. In relation to JPY LIBOR, at least 800 documented Internal Requests were made, directly involving at least 17 individuals, four of whom were Managers;

   b. In relation to GBP LIBOR, at least 90 documented Internal Requests were made, directly involving at least nine individuals, three of whom were Managers;

   c. In relation to CHF LIBOR, UBS routinely rounded all of its CHF LIBOR submissions by between 0.25 and 0.5 of a basis point to favour the bank's trading position (the "Rounding Adjustment"). Furthermore, at least six documented Internal Requests were made, directly involving at least three individuals, one of whom was a Manager;

d. In relation to EUR LIBOR, at least eight documented Internal Requests were made, directly involving at least six individuals, three of whom were Managers; and

e. In relation to USD LIBOR, at least two documented Internal Requests were made, directly involving at least four individuals, one of whom was a Manager[1].

10. In relation to EURIBOR, at least 13 documented Internal Requests were made, directly involving at least eight individuals, five of whom were Managers.

11. In addition, Traders and Trader-Submitters routinely discussed their trading positions and made Internal Requests orally. Trader-Submitters also influenced the submissions they made to suit their own trading positions.

12. Given the widespread and routine nature of making Internal Requests and the nature of the control failures identified in this Notice, every LIBOR and EURIBOR submission in currencies and tenors in which UBS traded is at risk of having been improperly influenced.

(b) Manipulation in collusion with brokers and other banks

13. UBS, through four of its Traders, colluded with interdealer brokers to attempt to influence the JPY LIBOR submissions of other banks ("Broker Requests"). The Brokers were in regular contact with various Panel Banks that contributed JPY LIBOR submissions. During the Relevant Period, the UBS Traders (one of whom was a Manager) were directly involved in making more than 1000 documented requests to 11 Brokers at six Broker Firms.

14. UBS, through one of its Traders, also colluded with individuals at Panel Banks to make submissions in relation to JPY LIBOR that benefited UBS's trading positions ("External Requests"). During the Relevant Period, UBS, through this Trader colluded with these individuals in his attempt to influence the JPY LIBOR submissions of four other banks by making more than 80 documented External Requests, as well as making such requests orally.

15. Broker Requests and External Requests were co-ordinated with Internal Requests. In the course of one campaign of manipulation, a UBS Trader agreed with his counterpart that he would attempt to manipulate UBS's submissions in *"small drops"* in order to avoid arousing suspicion. The Trader made it clear that he hoped to profit from the manipulation and referred explicitly to his UBS trading positions and the impact of the JPY LIBOR rate on those positions. He offered to *"return the favour"* and entered into facilitation trades and other illicit transactions in order to incentivise and reward his counterparts. UBS, through one of its Traders:

a. sought to secure the co-operation of traders at other Panel Banks by entering into facilitation trades that aligned their respective commercial interests so that both sides would benefit from the intended JPY LIBOR manipulation; and

[1] It does not appear that these Internal Requests were actioned by the recipients.

b. together with another UBS Trader, entered into *"wash trades"* (i.e. risk free trades that cancelled each other out and which had no legitimate commercial rationale) through two Broker Firms in order to facilitate corrupt brokerage payments to brokers as reward for their efforts to manipulate the JPY LIBOR submissions of Panel Banks. For example, on 18 September 2008, a Trader explained to a Broker: "*if you keep 6s* [i.e. the six month JPY LIBOR rate] *unchanged today ... I will fucking do one humongous deal with you ... Like a 50,000 buck deal, whatever ... I need you to keep it as low as possible ... if you do that .... I'll pay you, you know, 50,000 dollars, 100,000 dollars... whatever you want ... I'm a man of my word"*. UBS entered into at least nine such wash trades using this Broker Firm, generating illicit fees of more than £170,000 for the Brokers.

16. In addition, UBS made corrupt payments of £15,000 per quarter to Brokers to reward them for their assistance for a period of at least 18 months.

17. The nature of the relationship and total disregard for proper standards by these Traders and Brokers is clear from the documented communications in which particular individuals referred to each other in congratulatory and exhortatory terms such as "*the three muscateers* [sic]", "*SUPERMAN*", "*BE A HERO TODAY*" and "*captain caos* [sic]".

(c) Awareness of manipulation

18. A number of UBS managers knew about and in some cases were actively involved in UBS's attempts to manipulate LIBOR and EURIBOR submissions. In total, improper requests directly involved approximately 40 individuals at UBS, 11 of whom were Managers. At least two further Managers and five Senior Managers were also aware of the practice of the manipulation of submissions to benefit trading positions.

19. Furthermore, the practice of attempts to manipulate LIBOR and EURIBOR submissions to benefit trading positions was often conducted between certain individuals in open chat forums and in group emails, which included at least a further 70 individuals at UBS.

(d) Motive

20. UBS sought to manipulate LIBOR and EURIBOR in order to improve the profitability of trading positions.

Reaction to increased media attention

21. UBS acted improperly and breached Principle 5 on a number of occasions from at least 17 June 2008 to at least December 2008 by adopting LIBOR submissions directives whose primary purpose was to protect its reputation by avoiding negative media attention about its submissions and speculation about its creditworthiness.

22. Prior to 9 August 2007, UBS had routinely and improperly had regard to the profitability of its trading positions when making LIBOR submissions. After 9 August 2007, and in reaction to increased media scrutiny of the financial standing of banks and banks' LIBOR submissions during the financial crisis, UBS issued directives to

its LIBOR submitters intended to: *"protect our franchise in these sensitive markets"*. These informal directives were disseminated by UBS's Group Treasury and Asset and Liability Management Group about the approach to LIBOR submissions.

23. These directives changed over time, but for a significant part of the period from at least 17 June 2008 to at least December 2008, their purpose was to influence UBS's LIBOR submissions to ensure that they did not attract negative media comment about UBS's creditworthiness. On a number of days UBS's submissions were influenced by these directives.

Impact of the conduct

24. UBS's breaches of Principle 5 were extremely serious. Its misconduct gave rise to a risk that the published LIBOR and EURIBOR rates would be manipulated and undermined the integrity of those rates. In addition to its routine internal manipulation of its own LIBOR and EURIBOR submissions, UBS's collusion with Panel Banks and Brokers significantly increased the risk of manipulation of the published JPY LIBOR rates because the averaging process applied to submissions as part of the calculation of the published rate means that the risk of manipulation is greater if more than one Panel Bank's submission has been manipulated.

Principle 3 breaches

Systems and controls failings

25. UBS breached Principle 3 during the Relevant Period by failing to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems, in relation to its LIBOR and EURIBOR submissions process. The duration and extent of UBS's misconduct was exacerbated by these inadequate systems and controls.

26. During the period from 1 January 2005 to 7 August 2008, UBS had no systems, controls or policies governing the procedure for making LIBOR submissions. There were no systems, controls or policies in relation to EURIBOR submissions throughout the Relevant Period.

27. During the period from 1 January 2005 to 1 September 2009 (in relation to LIBOR) and to October 2009 (in relation to EURIBOR), UBS combined the roles of determining its LIBOR and EURIBOR submissions and proprietary trading in derivative products referenced to LIBOR and EURIBOR. This combination of roles was a fundamental flaw in organisational structure given the inherent conflict of interest between these two roles and the absence of any effective means of managing that conflict. There was a clear conflict between the obligation to make submissions in accordance with the published criteria and the responsibility for the profitability of trading positions. Despite this inherent conflict, UBS took no steps to manage the conflict until 1 September 2009 (for LIBOR) and October 2009 (for EURIBOR).

28. In 2008, UBS carried out a specific review of its systems for LIBOR submissions, which resulted in some new procedures. However this review was inadequately performed, the new procedures were inadequate in their design and further were inadequately implemented. In 2009, UBS performed a second review. Although

there were inadequacies with this review, UBS did take steps to address the inherent conflict of interest by removing the responsibility for determining submissions from Traders.

29. Even when the trading and submitting roles were split in September 2009 (in relation to LIBOR) and October 2009 (in relation to EURIBOR), UBS's systems and controls did not prevent Traders from persisting with their Internal Requests and attempting to influence submissions by camouflaging them as "*market colour*".

30. UBS management failed to manage the business areas appropriately. In fact, as noted above, a number of UBS managers knew about (and in some cases were actively involved in) UBS's attempts to manipulate LIBOR and EURIBOR submissions.

31. The routine and widespread manipulation of submissions was not detected by Compliance, nor was it detected by Group Internal Audit, which undertook five audits of the relevant business area during the Relevant Period. Furthermore, UBS's systems and controls did not detect any of the "wash trades".

Penalty

32. The integrity of benchmark reference rates such as LIBOR and EURIBOR is of fundamental importance to both UK and international financial markets. UBS's misconduct could have caused serious harm to other market participants. UBS's misconduct also undermined the integrity of LIBOR and EURIBOR and threatened confidence in and the stability of the UK financial system. The manipulation of submissions was routine, widespread and condoned by a number of Managers with direct responsibility for the relevant business area. UBS engaged in this serious misconduct in order to serve its own interests. The duration and extent of UBS's misconduct was exacerbated by its inadequate systems and controls.

33. The FSA therefore considers it is appropriate to impose a very significant financial penalty of £160,000,000 on UBS in relation to its misconduct during the Relevant Period.

DEFINITIONS

34. The following principal definitions are used in this Notice:

"Broker" means an interdealer broker who acted as intermediary in, amongst other things, deals for funding in the cash markets and interest rate derivative contracts. Six Brokers are referred to in this Notice, from Broker A to F.

"Broker Firm" means the employer of a Broker. Three Broker Firms are referred to in this Notice, from Broker Firm A to C.

"External Trader" means an employee of a Panel Bank, other than UBS, trading interest rate derivatives. Four External Traders are referred to in this Notice, from External Trader A to E.

"Manager" means a UBS employee with direct line management responsibility over Traders and/or Trader-Submitters and/or other non-trading personnel, for example, the head of a trading desk. Eight Managers are referred to in this Notice, from Manager A to H.

“Senior Manager” means an individual within UBS who is more senior than a Manager, for example, one with responsibility to oversee a business area. Five Senior Managers are referred to in this Notice, from Senior Manager A to E.

“Panel Bank” means a bank other than UBS with a place on the BBA panel for contributing LIBOR submissions in one or more currencies, or a place on the EBF panel for contributing EURIBOR submissions. Five Panel Banks are referred to in this Notice, from Panel Bank 1 to 5.

“Trader” means a UBS employee trading interest rate derivatives. Five Traders are referred to in this Notice, from Trader A to E.

“Trader-Submitter” means a UBS Trader who also had responsibility for making LIBOR or EURIBOR submissions. Five Trader-Submitters are referred to in this Notice, from Trader-Submitter A to E.

35. The following further definitions below are used in this Notice:

“the Act” means the Financial Services and Markets Act 2000.

“ALM” means the Asset and Liability Management Group of UBS AG.

“ALM-Submitter” means a UBS employee based in ALM with responsibility for determining LIBOR and/or EURIBOR submissions.

“BBA” means the British Bankers’ Association.

“Broker Request(s)” means a request by a UBS employee to an interdealer broker to influence the JPY LIBOR submissions of another Panel Bank(s).

“CP/CD issuance rates” means the rates at which banks can offer to borrow cash by issuing commercial paper or certificates of deposit (respectively).

“EBF” means the European Banking Federation.

“EURIBOR” means Euro Interbank Offered Rate.

“External Request” means a request by a Trader to an External Trader at a Panel Bank to adjust that bank’s JPY LIBOR submission.

“the FSA” means the Financial Services Authority.

“FRA” means Forward Rate Agreement.

"FX & MM Committee" means the Foreign Exchange and Money Markets Committee of the BBA, made up of members from Panel Banks, which has the sole responsibility for all aspects of the functioning and development of LIBOR.

"Internal Request" means a communication between a Trader and Trader-Submitter or an ALM-Submitter to adjust a LIBOR or EURIBOR submission to benefit a derivatives trading position.

"LIBOR" means London Interbank Offered Rate.

"maturity" means the period of time for which a financial instrument remains outstanding.

"Rates Desk" means the desk that trades interest rate derivatives products, primarily with maturities longer than one year.

"Relevant Period" means 1 January 2005 to 31 December 2010.

"Rounding Adjustment" means the routine rounding of CHF LIBOR submissions by between 0.25 and 0.5 of a basis point to favour UBS's CHF denominated derivatives trading positions.

"STIR Desk" means the short term interest rate desk, which (i) was responsible for managing the short term cash position and funding of the bank by borrowing and lending money as well as by trading short term derivative products to ensure that the bank has sufficient funds to pay short term liabilities; and (ii) is a market maker in short term interest rate products of up to 18 months.

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber).

"UBS" means UBS AG.

FACTS AND MATTERS

36. This Notice sets out facts and matters relevant to the following:

A. Background (see paragraphs 37 to 51);

B. Manipulation of JPY LIBOR submissions of UBS and other banks (see paragraphs 52 to 90);

C. Manipulation of other LIBOR currencies and EURIBOR (see paragraphs 91 to 96);

D. Managerial awareness of LIBOR and EURIBOR manipulation (see paragraphs 97 to 108);

E. Reaction to increased media attention (see paragraphs 109 to 126); and

F. The failure of UBS's systems and controls (see paragraphs 127 to 161).

A. Background

LIBOR, EURIBOR and interest rate derivatives contracts

37. LIBOR is the most frequently used benchmark for interest rates globally, referenced in transactions with a notional outstanding value of at least USD 500tn.

38. LIBOR is currently published for ten currencies and fifteen maturities. However the large majority of financial contracts use only a small number of currencies and maturities. For example, JPY, GBP and USD LIBOR are widely used currencies and three month and six month are commonly used maturities.

39. LIBOR is published on behalf of the BBA and EURIBOR is published on behalf of the EBF. LIBOR (in each relevant currency) and EURIBOR are set by reference to the assessment of the interbank market made by a number of banks, referred to as panel banks. The panel banks are selected by the BBA and EBF and each bank contributes rate submissions each business day. These submissions are not averages of the relevant banks' transacted rates on a given day. Rather, both LIBOR and EURIBOR require contributing banks to exercise their subjective judgement in evaluating the rates at which money may be available in the interbank market when determining their submissions.

40. Interest rate derivative contracts typically contain payment terms that refer to benchmark rates. LIBOR and EURIBOR are by far the most prevalent benchmark rates used in OTC interest rate derivatives contracts and exchange traded interest rate contracts.

Definitions of LIBOR and EURIBOR

41. Both LIBOR and EURIBOR have definitions that set out the nature of the judgement required from the contributing banks when determining their submissions:

    a. Since 1998, the LIBOR definition published by the BBA has been as follows: *The rate at which an individual contributor panel bank could borrow funds, were it to do so by asking for and then accepting interbank offers in reasonable market size just prior to 11:00 London time"* [2]*;* and

    b. EURIBOR is defined by the EBF as *"The rate at which euro interbank term deposits are being offered within the EMU* [3] *one by one prime bank to another at 11:00 am Brussels time."* [4]

42. The definitions are therefore different, LIBOR focusing on the contributor bank itself and EURIBOR making reference to a hypothetical prime bank. However each definition requires submissions related to funding from the contributing banks. The definitions do not allow for consideration of factors unrelated to borrowing or lending in the interbank market.

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[2] http://www.bbalibor.com/bbalibor-explained/definitions
[3] European Monetary Union.
[4] http://www.euribor-ebf.eu/euribor-org/about-euribor.html

LIBOR and EURIBOR setting at UBS

43. Throughout the Relevant Period, Traders were based in Japan, Switzerland, the UK and the USA.

44. UBS was a panel bank for AUD, CHF, DKK, EUR, GBP, JPY and USD LIBOR and EURIBOR throughout the Relevant Period.

45. UBS became a panel bank for SEK and CAD LIBOR in January 2006 and February 2009 respectively, until the end of the Relevant Period.

(a) Up to Q3 *2009*

46. From 1 January 2005 to 1 September 2009, all LIBOR submissions (with the exception of USD and EUR submissions) were made by Trader-Submitters from the short term interest rate desk (known as the "STIR Desk"), which was located in Zurich.

47. From 1 January 2005 to 17 October 2008, USD and EUR LIBOR submissions were made by Trader-Submitters from the desk that traded derivatives with a maturity of more than one year, (known as the "Rates Desk"), which was located in London. Responsibility for USD and EUR LIBOR submissions formally moved from the Rates Desk to the STIR Desk on or around 17 October 2008. However, in practice the EURO STIR Desk started making EUR LIBOR submissions from August 2007.

48. From 1 January 2005 to October 2009, UBS's EURIBOR submissions were also determined by Trader-Submitters on the EUR STIR Desk.

49. Both the STIR Desk and the Rates Desk generated significant profits for UBS through their derivatives trading in products linked to LIBOR and EURIBOR.

(b) From Q3 2009

50. On 1 September 2009 UBS removed responsibility for determining all LIBOR submissions from Trader-Submitters on the STIR Desk and moved it to ALM. The individuals in ALM responsible for determining the submissions ("ALM Submitters") were not Traders.

51. UBS also moved its EURIBOR submission function to ALM in the course of October 2009.

B. Manipulation of JPY LIBOR submissions

52. During the Relevant Period, Traders at UBS made at least 1900 documented Internal Requests, External Requests and Broker Requests[5] in connection with JPY LIBOR. This is broken down as follows:

[5] The figures in this Notice are calculated using the following methodology. If more than one request was contained in the same communication, these have been counted separately. For example, a request for a "high 3 month and low 6 month" would be counted as two requests. A request for a "high 3 month" for the next two days would also be counted as two requests. A request for "high" or "low" submissions, which did

a. More than 800 documented Internal Requests were made directly involving at least 17 Traders and Trader-Submitters, four of whom were Managers;

b. More than 80 documented External Requests were made by Trader A to at least six External Traders seeking to influence the JPY LIBOR submissions of four other Panel Banks. Trader A sometimes combined External Requests with trading designed to align his interests with External Traders' interests and thereby incentivised the External Traders to attempt to influence their own firms' LIBOR submissions;

c. On several occasions during the Relevant Period, in a further effort to secure External Traders' co-operation with their banks' JPY LIBOR submissions, Trader A agreed to pass the incoming JPY LIBOR requests of certain External Traders to UBS Trader Submitters; and

d. More than 1000 documented Broker Requests were made to influence the JPY LIBOR submissions of other Panel Banks directly involving at least four Traders (one of whom was a Manager) to 11 Brokers at six Broker Firms.

53. In addition, Traders made their requests orally.

Collusion with individuals at Panel Banks and with Brokers in the manipulation of JPY LIBOR

(a) Open collusion

54. As noted above, UBS through one of its Traders made more than 80 documented External Requests to four Panel Banks. In addition, at least four Traders (one of whom was a Manager) made more than 1000 Broker Requests to 11 Brokers at six Broker Firms.

55. Trader A engaged Panel Banks and Brokers in co-ordinated attempts to manipulate JPY LIBOR to benefit his UBS trading positions. He co-ordinated Broker Requests and External Requests with Internal Requests. In the course of one campaign of manipulation, Trader A agreed with his counterpart that he would attempt to manipulate UBS's submissions in *"small drops"* in order to avoid arousing suspicion. Trader A made it clear that he hoped to profit from the manipulation and referred explicitly to his UBS trading positions and the impact of the JPY LIBOR rate on those positions. On a few occasions, he offered to *"return the favour"* and entered into facilitation trades in order to incentivise his counterparts:

a. Trader A sought to secure the co-operation of traders at other Panel Banks by entering into trades that aligned their respective commercial interests so that both sides would benefit from the intended JPY LIBOR manipulation.

b. Trader A and another Trader, entered into "wash trades" (i.e. risk free trades that cancelled each other out and which had no legitimate commercial

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not specify a particular maturity would be counted as three requests (for one month, three month and six month submissions) unless the context of the communication indicates otherwise.

rationale) in order to facilitate corrupt brokerage payments to at least three Brokers at two Broker Firms as reward for their efforts to manipulate the submissions of Panel Banks. For example, in a telephone conversation on 18 September 2008, Trader A explained to Broker A of Broker Firm A: *"if you keep 6s* [i.e. the six month JPY LIBOR rate] *unchanged today... I will fucking do one humongous deal with you ... Like a 50, 000 buck deal, whatever. I need you to keep it as low as possible ... if you do that ... I'll pay you, you know, 50,000 dollars, 100,000 dollars ... whatever you want ... I'm a man of my word".*

c. In the period 19 September 2008 to 25 August 2009, Trader A and another Trader entered into nine "wash trades" with Broker Firm A in order to generate fees of more than £170,000 to reward Broker A for his efforts on behalf of UBS.

d. In addition, for a period of at least 18 months, UBS made additional payments to Broker Firm B of £15,000 per quarter as a reward for the provision of a *"fixing service",* which were paid in addition to an existing contractual agreement for brokerage services. These payments were subsequently shared internally by a number of the Brokers at Broker Firm B, with Broker C receiving £5,000 per quarter for his particular *"fixing service"* (see paragraphs 58 to 60).

(b) Direct requests

56. At least four UBS Traders (one of whom was a Manager) routinely made Broker Requests in response to which Brokers made direct contact with a number of Panel Banks requesting specific JPY LIBOR submissions.

57. For example, on 18 July 2007 Broker B at Broker Firm A contacted a submitter at Panel Bank 1 enquiring about JPY LIBOR submissions that the bank was going to contribute. The submitter was extremely diffident about his bank's submission, (saying "*It makes no difference to me*") and agreed to make the submission requested by Broker B. Broker B confirmed that the request came from Trader A at UBS. The conversation proceeded as follows:

Panel Bank 1 submitter:	*"Alright, well make sure he* [Trader A] *knows"*
Broker B:	*"Yeah, he will know mate. Definitely, definitely, definitely";*
Panel Bank 1 submitter:	*"You know, scratch my back yeah an all"*
Broker B:	*"Yeah oh definitely, yeah, play the rules."*

(c) Requests to tailor "run throughs"

58. Certain Brokers also routinely disseminated their views about where LIBOR would set based on their market knowledge, including information about transactions in the relevant cash markets. These market views, commonly referred to as "run throughs",

were of assistance to market participants, including Panel Banks when determining their JPY LIBOR submissions. A number of Panel Banks relied on run throughs and on occasions some of them simply adopted them when making their submissions.

59. In addition to asking Brokers to make specific requests of Panel Banks for specific submissions, Trader A also asked Brokers to tailor their run throughs to benefit UBS's JPY positions.

60. For example, by 6.45 am on 28 June 2007 Broker C at Broker Firm B had decided on the rates for his JPY LIBOR run through for that day. For the six month rate, he had decided on a rate of 0.86%. However, at 8.34 am Broker D who was also at Broker Firm B emailed him about his run through and specified the six month rate that would suit Trader A and told him *"... TO GET HIS BANKS SETTING IT HIGH."* Later that morning, Broker C confirmed that he had changed the six month rate in his run through to the higher rate required by Trader A.

(d) Requests to "spoof" the market

61. Trader A also asked certain Brokers to make false bids and offers (referred to as "*spoofs*") on cash trades in the market in order to skew market perceptions of the rates at which cash could be borrowed or lent in the interbank market. The intention was that the JPY LIBOR submissions of Panel Banks that observed cash market rates when determining their submissions would be skewed. For example, between 7 July 2008 and 29 June 2009, false offers were discussed on the telephone by Trader A with Broker A on at least 12 occasions. In one such conversation on 27 January 2009, Broker A explained that he had been: *"... offering...some cheap 3s all morning and 1 shouted them- down at* [Panel Bank 3] *as well...we were offering them at 50 mate... that wasn't even true"*.

(e) Requests to manipulate screens

62. In addition, Trader A asked certain Brokers to manipulate their screens for the purpose of disseminating false information about prevailing market cash rates. The Brokers provided electronic screens to which certain Panel Banks had access for the purpose of obtaining information about cash rates in the market. At the request of Trader A, Brokers altered the information that those screens were showing and inserted false market information. For example, on 24 June 2009 in an electronic chat Trader A asked Broker E at Broker Firm B "*pls try to keep 1y*[ear] *low on screen mate* ..."

(f) Impact of External Requests and Broker Requests

63. The External Requests and Broker Requests increased the risk of manipulation of the published JPY LIBOR rates because the averaging process applied to submissions as part of the calculation of the published rate means that the risk of manipulation is greater if more than one Panel Bank's submission has been manipulated.

Manipulative campaigns

64. During the Relevant Period, UBS through Trader A engaged in a series of focused and co-ordinated efforts to manipulate JPY LIBOR at particular key points, for which

purpose this Trader enlisted the help of other Traders and Managers at UBS. These efforts are referred to in this Notice as *"campaigns"*.

65. The analysis at paragraphs 66 to 90 is limited to three particular campaigns of manipulation referred to in this Notice as (1) the January 2007 to May 2007 campaign; (2) the June 2009 campaign; and (3) the July/August 2009 campaign or "*operation 6m*". These three campaigns illustrate the different methods of manipulation and provide examples of the improper communications that occurred.

The January 2007 to May 2007 campaign

66. Throughout 2007, Trader A made more than 450 documented requests directed towards manipulating JPY LIBOR submissions. However, Trader A had particularly large trading positions tied to three month JPY LIBOR that matured (sometimes described by Traders and Trader-Submitters as *"fixings"* or *"fixes"*) in January and February 2007 and in April and May 2007. As a result Trader A embarked on a co-ordinated campaign to influence three month JPY LIBOR for the benefit of those positions. For this purpose, Trader A made Internal Requests, Broker Requests and External Requests. Trader A reciprocated by offering to adjust UBS's JPY LIBOR submissions to suit the External Traders' positions.

67. In an electronic chat on 2 February 2007, Trader A explained the aim of the 2007 campaign to an External Trader at a Panel Bank. He explained that:

  a. He would take trading positions that would benefit from a reduction in the spread between the three month JPY LIBOR rate and another reference rate, TONAR[6], in April and May 2007;

  b. His efforts to date were already producing results because he was: *"...mates with the cash desks,* [Panel Bank 3] *and i always help each other out"* with the result that *"3m libor is too high cause I have kept it artificially high."* and that he was currently keeping that LIBOR rate one basis point too high; and

  c. In May 2007, he would manipulate three month JPY LIBOR one basis point too low.

68. Trader A intended to take spread trading positions that would benefit if the three· month JPY LIBOR was high in January to early February 2007 and low from the end of March to the middle of May 2007. In support of his efforts to manipulate the three month submission, Trader A also sought to manipulate one month and six month JPY LIBOR submissions.

(a) Phase One

69. Between 17 January and 5 February 2007, in the first phase of his campaign, Trader A made at least 18 three month Internal Requests. He also made at least six Internal Requests for one month submissions and at least 10 Internal Requests for six month

[6] Tokyo Overnight Average Rate, a JPY denominated reference rate that is published by the Bank of Japan every business day.

submissions. The Trader-Submitters agreed to help with every Internal Request. For example:

a. On 24 January 2007, Trader A contacted Manager A, who supervised and provided input to the Trader-Submitter making UBS's JPY LIBOR submissions. Trader A asked Manager A to: *"...try to keep 6m and 3m libors up"*. Manager A responded: *"standing order, sir"*.

b. The same day, Trader-Submitter A, complained to Manager A that Trader A and Trader B wanted conflicting submissions. Trader-Submitter A complained: "*As I said to you, I got to say this is majorly frustrating that those guys can give us shit as much as they like...One guy* [Trader A] *wants us to do one thing and* [Trader B] *wants us to do another....*"

c. On 5 February 2007, Trader A contacted Manager A and Trader-Submitter A in an electronic chat: " ... *last 3m fix if you cld keep high (6m wd prefer high but not urgent) and if we cld keep 1m low wd be appreciated, if doesn't suit let me know and maybe we can offset our fixes thx any help much appreciated.*" Trader A's offer to *"offset our fixes"* was an express recognition that his requests may conflict with the trading positions of Manager A. Therefore, in order to safeguard against his requests being rejected, Trader A offered facilitation trades to Manager A to align their interests and *"offset"* any losses that Manager A may incur by carrying out the request.

70. Throughout this period UBS was consistently in the top quartile of the Panel Banks for three month JPY LIBOR submissions except on one occasion when it fell into the middle of the pack for one day on 24 January 2007.

71. As part of the same campaign, on at least four occasions in January 2007, Trader A made External Requests to External Traders at Panel Bank 3 to persuade them to cause their bank's submitters to increase their three month JPY LIBOR submissions. In return, Trader A offered to ask UBS's Trader-Submitters to make JPY LIBOR submissions to suit the positions of the external traders. For example, on 19 January 2007 in an electronic chat, Trader A asked External Trader B at Panel Bank 3 to help him obtain a high three month JPY LIBOR submission from Panel Bank 3 because he had: "absolutely massive 3m fixes". Trader A said: "*Anytime i can return the favour let me know as the guys here are pretty accommodating* [sic] *to me*".

72. Trader A also made at least one Broker Request as part of the first phase of the 2007 campaign.

(b) Phase Two

73. Between the end of March to the middle of May 2007, as part of the second phase of the 2007 campaign, Trader A made at least 27 Internal Requests for low three month submissions. In all but one instance (when the request went unanswered), the Trader-Submitters agreed to the requests.

74. Over this period, Trader A also made at least 23 Internal Requests for JPY LIBOR submissions in the six month tenor. In addition, Manager A solicited Internal

Requests from Trader A on at least one occasion. Examples of Trader A's Internal Requests include**:**

a. On 29 March 2007, Trader A requested low three and six month LIBOR submissions from Manager A in an electronic chat. Trader A asked what JPY LIBOR submission UBS was going to set. Manager A replied: "*too early to say yet ... prob*[ably] *.69 would be our unbiased contribution."* Trader A repeated the request for a low three month JPY LIBOR submission. Manager A responded: *"as i said before - i dun mind helping on your fixings, but i'm not setting libor 7bp away from the truth i'll get ubs banned if i do that, no interest in that".* Trader A replied that he had no interest in that happening either, and that he was "*not asking for it to be 7bp from reality*" and concluded "*anyway, any help appreciated*". Consistent with Trader A's requirements, UBS's submission was two basis points less than the *"unbiased"* figure of 0.69%.

b. In recognition that his request might conflict with Manager A's own trading positions, on 17 April 2007 Trader A said in an electronic chat: " ... *really need low libors today in everything, but esp 6m, let me know if that suits or if not can we do a fra? Thx."* Trader A offered the *"fra"* to Manager A as a facilitation trade in order to eliminate any conflict between their respective positions. In the event, there was no conflict, as reflected in Manager A's positive response: "*I've got nothing today, will keep 'em low*". On 17 April 2007, UBS's one month submission fell 1.5 basis points to 0.625%. The three month submission remained unchanged from the previous day at 0.65%. UBS's six month submission fell two basis points to 0.68%.

75. Over this period, 34 of the 36 three month JPY submissions made by UBS were lower than the published rate, consistent with Trader A's requests for low submissions.

76. In the second phase of the 2007 campaign, Trader A also made at least six External Requests of External Traders at Panel Banks. For example, on 20 April 2007, Trader A followed up on an earlier request in an electronic chat with External Trader C at Panel Bank 4:

Trader A:	*"mate did you manage to spk to your cash boys?"*
External Trader C:	*"yes u owe me they are going to 65 and 71"*

45 minutes later the conversation resumed after the submission had been made by Panel Bank 4's submitters:

External Trader C:	*"mater* [sic] *they set* [x]*!"*
Trader A:	*"thats beyond the call of duty! i wish it was there!"*

77. In the second phase of the 2007 campaign, Trader A made at least four Broker Requests in connection with the three month JPY LIBOR rate. In addition, Trader A also made at least seven Broker Requests in connection with the one and six month JPY LIBOR rate. This included Trader A instructing Broker A of Broker Firm A that

he needed to keep cash/interbank lending rates down (the logic being that influencing these rates would indirectly influence the LIBOR submissions of other panel banks).

The June 2009 campaign

78. By 23 June 2009, Trader A held a large number of positions tied to the six month JPY LIBOR rate that were due to mature on 29 June 2009. Until maturity, Trader A benefited from a stable rate and on maturity, Trader A benefited from a high six month JPY LIBOR rate.

79. Between 23 and 29 June 2009, Trader A made two External Requests to External Trader A at Panel Bank 2 for assistance with six month JPY LIBOR and he incentivised External Trader A by entering into a facilitation trade with him under which External Trader A would also benefit from a high six month JPY LIBOR. On each occasion, External Trader A confirmed that he would assist Trader A with Panel Bank 2's submissions and on 29 June 2009 he told Trader A that his bank's six month submission would increase, which it subsequently did.

80. Between 23 and 29 June 2009, Trader A made at least 21 Broker Requests of four Brokers seeking their assistance in influencing the JPY LIBOR submissions of Panel Banks. For example:

    a. In an electronic chat on 25 June 2009, Trader A discussed his imminently maturing trading positions with Broker E. Trader A requested: *"a massive effort on the 6m tonight pls mate ..."* Broker E confirmed that he was trying to assist and was involving other Brokers in his efforts.

    b. In an electronic chat on 29 June 2009, Trader A informed Broker A of the rates that UBS and Panel Bank 2 would submit for six month JPY LIBOR. Trader A instructed Broker A what six month JPY LIBOR submissions he wanted from every Panel Bank, going through them one by one. Trader A told Broker A "*.. . do your best and i'll sort u out".* Trader A stressed to Broker A that it was crucial that he approached the Panel Banks, saying *"v v v important pls try extra extra hard mate".* Broker A confirmed he would try hard to assist.

81. On the maturity date, 29 June 2009, Trader A made an Internal Request for a high six month JPY LIBOR submission in an electronic chat with Trader-Submitter B. Trader A explained that he had *"huge fixings"* with a value of USD 2m per basis point. Trader A requested a submission of 0.74% or 0.75%. Trader-Submitter B agreed and increased the submission from 0.72% on the previous business day to 0.75%.

The July/August 2009 campaign: "operation 6m"

82. In the July/August 2009 campaign, to benefit his trading positions Trader A sought to manipulate first upwards and then downwards the six month JPY LIBOR rate. In an electronic chat with Broker E on 24 June 2009, Trader A labeled the campaign *"operation 6m".* In addition, he asked Broker E to manipulate his screen in connection with 12 month JPY LIBOR. It is therefore apparent that Trader A was simultaneously pursuing other manipulative trading strategies.

83. In the first phase of *"operation 6m"*, Trader A made at least two Internal Requests for high six month JPY LIBOR submissions, which were granted. In this period UBS remained in the top quartile of the six month JPY LIBOR panel.

84. On 29 July 2009, Trader A and Broker E discussed recent small reductions in UBS's JPY LIBOR submissions. In the course of that electronic chat, Broker E referred to External Trader E at Panel Bank 4. External Trader E was building positions in the expectation that the six month rate would increase. Broker E said that External Trader E: *" ... could be in for a shock going into august ... the three muscateers* [sic] c*ould do him a fair bit of damage"*. The reference to the three *"muscateers* [sic]" was to Trader A, External Trader A at Panel Bank 2 and Panel Bank 5.

85. After 10 August 2009, Trader A needed a steep decline in the six month JPY LIBOR rate. However, Trader A was travelling in the month of August 2009. During his absence from the trading desk, Trader A passed instructions to his junior, Trader C, in connection with the implementation of "*operation 6m*". Trader A emailed Trader C to remind him to push for lower six month LIBOR rates.

86. On 7 August 2009, Trader C emailed Trader A asking if he would: *"prefer small drops in the 6s starting from today and a big one on Tuesday?".* The reason for the enquiry was that a big drop would prejudice the trading position due to fix on 10 August 2009. Trader C explained that Manager B had approved the former approach of small drops. (Manager B made at least 20 Internal Requests himself over the Relevant Period) Trader A agreed to small drops to 11 August 2009 and then a larger drop.

87. During "*operation 6m",* Trader A made External Requests to External Trader A at Panel Bank 2. For example:

   a. In an electronic chat on 6 July 2009, Trader A outlined the planned manipulation to External Trader A at Panel Bank 2.

   b. In an electronic chat on 14 July 2009 with External Trader A, Trader A confirmed the plan to co-ordinate drops in their respective banks' six month JPY LIBOR submissions. Trader A explained that after the end of the month, UBS would: "*get 6M down a lot, we will move from top to bottom* [of the pack] *and so will* [Panel Bank 5] ... *if you cld hold your 6m fix till* [the end of the month] *wld be a massive help*". External Trader A agreed to keep his bank's submission high noting that the request suited him too.

88. Furthermore, Trader A was in almost constant contact with Broker Firms during his period. For example:

   a. Between 1 July and 3 August 2009 (when he left for holiday), Trader A made at least 43 Broker Requests to Broker A of Broker Firm A.

   b. Between 1 and 31 July 2009, Trader A made 39 requests of Broker F of Broker Firm C . For example, in an electronic chat on 14 July 2009, Trader A requested a "*HIGH 6M SUPERMAN ... BE A HERO TODAY."* Broker F said: "*ill try mate ... as always."*

c. In an electronic chat on 15 July 2009, Trader A instructed Broker F that the submission should remain high and then he would need it a lot lower. (At that time, Trader A's plan was to maintain high six month LIBOR rates until the end of the month). Trader A also requested: "*3m and 1m unch* [i.e. unchanged]". Trader A also inserted an extract of another electronic chat with Broker A of Broker Firm A in which Broker A said: *"putting the captain caos* [sic] *outfit on as we speak".*

89. Throughout July 2009, Trader A was also in regular contact with Broker E of Broker Firm B about *"operation 6m*" and made at least 15 documented communications about this campaign. For example, in an electronic chat on 21 July 2009, Broker E advised Trader A about the tactic of effecting a number of small changes in submissions rather than one dramatic change. He said, *"if you drop your 6M dramatically on the 11th mate, it ·will look v fishy, especially if* [Panel Bank 5] *and* [Panel Bank 2] *go with you. 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."* Trader A replied*: "don't worry will stagger the drops ..."*

90. On 27 July 2009, UBS began lowering its six month submissions by one or two basis points every few business days, rather than making a large single day reduction. From 27 July to 28 August 2009, UBS's submission fell 12 basis points from 0.72% on 22 July to 0.60% on 28 August 2009.

C. Manipulation of other LIBOR currencies and EURIBOR submissions

91. In addition to the manipulation of JPY LIBOR submissions, as explained below, UBS's Traders also made more than 115 documented Internal Requests in relation to certain other LIBOR currencies and EURIBOR.

92. Across the separate currencies for which UBS made LIBOR submissions in addition to JPY, the Internal Requests are broken down as follows across the Relevant Period:

a. In relation to GBP LIBOR, at least 90 documented Internal Requests were made, directly involving at least nine individuals, three of whom were Managers;

b. In relation to CHF LIBOR, UBS systematically rounded all of its CHF LIBOR submissions by between 0.25 and 0.5 of a basis point to favour the bank's trading position (the "Rounding Adjustment"). Furthermore, at least six documented Internal Requests were made directly involving at least three individuals, one of whom was a Manager;

c. In relation to EUR LIBOR, at least eight documented Internal Requests were made, directly involving at least six individuals, three of whom were Managers; and

d. In relation to USD LIBOR, at least two documented Internal Requests were made, directly involving at least four individuals, one of whom was a Manager.[7]

[7] It does not appear that these Internal Requests were actioned by the recipients.

93. In relation to EURIBOR, at least 13 documented Internal Requests were made, directly involving at least eight individuals, five of whom were Managers.

94. In addition, Traders and Trader-Submitters routinely discussed their trading positions and made Internal Requests orally.

95. Internal Requests were routine and expected to be taken into account by Trader Submitters. Trader-Submitters also solicited Internal Requests from the Traders and sometimes indicated if the requests suited their own positions. As well as receiving specific Internal Requests, Trader-Submitters were informed about the overall trading exposure and took this into account when determining submissions.

96. As with JPY LIBOR submissions, submissions could still be improperly influenced even after responsibility for submissions moved to ALM in September 2009. As described in more detail in paragraphs 152 to 154 below, Internal Requests continued to be made disguised as "*market colour*".

D. Managerial awareness of manipulation of LIBOR and EURIBOR submissions

97. A number of Managers knew about and accepted the practice of manipulating submissions in certain LIBOR currencies and EURIBOR.

98. For reasons explained later in this Notice, on 9 August 2007, Manager C sent an email to Manager D, and Senior Manager A, Senior Manager B and Senior Manager C stating: *"... It is highly advisable to err on the low side with fixings for the time being to protect our franchise in these sensitive markets. Fixing risk and PNL thereof is secondary priority for now".* The statement that "*Fixing risk and PNL thereof is secondary priority for now"* means that by no later than this date, all the recipients of the email were aware that *"fixing risk and PNL"* (i.e. the financial exposure on derivative positions and improving profits through LIBOR manipulation) was (if only in Manager C's view) usually the first priority and would be of only secondary importance *"for now."* The email was not limited to any particular currency or currencies.

Direct managerial involvement in JPY LIBOR manipulation

99. The paragraphs below explain how UBS's Managers and Senior Managers were involved in, or aware of, the manipulation of UBS's JPY LIBOR submissions and give examples of their involvement. In summary:

    a. At least four Managers were directly involved in Internal Requests;

    b. At least three further Managers were aware of Internal Requests;

    c. At least four Senior Managers were aware of Internal Requests;

    d. At least one Manager was directly involved in Broker Requests;

    e. At least one further Manager was aware of Broker Requests;

    f. At least three Managers were aware of External Requests; and

g. At least one Senior Manager was aware of External Requests.

100. For example, by way of emails dated 11 and 14 December 2007 and 8 and 9 October 2008 Manager E enlisted the assistance of Senior Manager D, to ensure that Internal Requests were acted upon. Manager E had become frustrated because directives from Group Treasury and ALM regarding the LIBOR submission methodology to be employed during the financial crisis (see Section E) was conflicting with Manager E's concerns to maximise profits through manipulating JPY LIBOR to benefit trading positions.

101. In the December 2007 exchange**:**

a. On 11 December 2007 Manager E emailed Senior Manager D asking *"How much pressure can we exert on MMC*[8] *to raise up our 3m yen fixing over the next week? We have 2mio/bp of fixing risk expiring on Dec imm. We have been riding a wave on this trade, but everyone will be trying to influence the fixing next Monday* [17 December 2007] *reflecting their positions. If we don't do the same we risk an adverse PL* [i.e. an adverse impact on UBS's profits]. *Currently we are in the bottom quartile. A move to the middle* [of the pack] *is worth 500k. There is some reluctance on their part to move it higher as they are concerned about the reputational risks of putting in a high fix. I'd agree with this if we were to set in the top quartile that may be the case, but I don't think anyone's really got their eye on UBS's 3m yen fix. If our position is bigger then* [sic] *MMC, we should be doing what's best for the bank. What are your thoughts please?*". Senior Manager D's response, which copied in Senior Manager E, was: *"I will talk to* [Senior Manager B]". Senior Manager E, who had been copied into the email, replied to Manager E stating that *"I will call you from the airport for an update on this".*

b. On 14 December 2007, Manager E emailed Senior Manager D and asked *"How was the discussion with* [Senior Manager B]*? ... I need some assurance they will put their rate up please...our rate input can make a significant difference".* This final sentence was explicit about the potential impact on the published rate. One minute later Senior Manager D emailed back, *"I will try to talk with* [Senior Manager B] *today...".*

102. In the weeks leading up to the 14 December 2007, UBS's three month JPY LIBOR submission was always within the bottom quartile and thus excluded from the fixing calculation. On 17 December 2007, UBS's submission increased by two basis points, resulting in UBS's submission being included for the purposes of the calculation of the published rate. On 18 December 2007, UBS's submission decreased by ten basis points taking it back to the bottom quartile where it remained for a number of weeks.

103. In the October 2008 exchange:

a. Manager E emailed Senior Manager D advising him that UBS had trading positions that would cause losses of USD 4m per basis point if "*libors move higher"*. Manager E complained that *"Group treasury has informed Stir to put*

[8] MMC: Money Market and Commodities which later became STIR.

all fixings in the middle of the pack…[which] *resulted in UBS...contributing to a 1/2bp higher fixing today. Last year when we wanted Libors higher, we were told our fixing had to be low to show UBS's comparative* [sic] *strength. Now there are 7 banks showing lower fixes than us in 3m JPY. How do I get some focus on this?"*

b. Manager E sent a chasing email the following day, 9 October 2008, to Senior Manager D and Manager F, copying in Trader A, saying: *"We really need some co-operation on the yen libors from those who input... as someone says we need to be in the middle of the pack. Is it possible we can get an exception for Yen?"* Later that day Manager E emailed Senior Manager D and Manager F stating that he: "*got some concession on this in the end we will be a bit lower. every bit helps."*

104. On 31 March 2008, in the course of an electronic chat between Trader A, Manager E and Broker A of Broker Firm A, Manager E complained to Broker A about the level of six month JPY LIBOR. Broker A said *"we have to be careful on putting too much pressure on mate I ask all the time for yu* [sic] *guys as you know".* Manager E replied *"yeah I know you do it is much appreciated".*

105. Manager A, who supervised the JPY LIBOR submission process and provided input to Trader-Submitters, was aware of Trader A's Broker Requests. In addition to facilitating Internal Requests during his oversight role over the submission process, Manager A also made at least 14 documented Internal Requests for the benefit of his own positions.

106. At least two Managers at UBS knew about JPY LIBOR External Requests. In an electronic chat on 15 March 2007 between Trader A and Manager A, in which Manager E was also included, Trader A openly said that he would *"...ask* [Panel Bank 4] *and* [Panel Bank 3] *for a low fix for you I need low as well."*

Direct managerial involvement in LIBOR manipulation in other currencies and EURIBOR

107. The paragraphs below explain how UBS's Managers were involved in the manipulation of UBS's LIBOR submissions in other currencies and in relation to EURIBOR and give examples of their involvement. In summary:

a. At least eight Managers were directly involved in Internal Requests; and

b. At least two further Managers and four Senior Managers were aware of Internal Requests.

108. For example:

a. On 8 December 2005, an email discussion took place involving, amongst others, Senior Manager C and Senior Manager D. One participant in the discussion asked why USD LIBOR and EUR LIBOR submissions were determined by the Rates desk. A junior administrator explained that the Rates desk determined USD submissions because: *"the swap desk has large reset risk on its swap positions.* [Senior Manager D] *has therefore expressed the wish that the current process should remain for consistency".* Retaining control of the submission process would enable Senior Manager D to manipulate submissions to benefit USD and EUR LIBOR trading positions.

b. During a discussion in a public chat group with 58 participants on 25 June 2009, Trader-Submitter C openly solicited several colleagues for Internal Requests in respect of EURIBOR submissions. Later on the same day, in a private chat Manager D said to Trader-Submitter C: "*JUST BE CAREFUL DUDE*". Trader-Submitter C replied: *"i agree we shouldnt ve been talking about putting fixings for our positions on public chat*".

c. On 16 April 2008, Manager D and Trader-Submitter D discussed The Wall Street Journal article referred to in paragraph 119. Manager D commented *"great article in the WSJ today about the libor problem*". Trader-Submitter A replied *" ... just reading it".* Approximately two hours after that discussion the following exchange occurred:

Trader-Submitter D:	*"mate any axe in* [GBP] *libors?"*
Manager D:	*"higher pls"*
Trader-Submitter D:	*"93?"*
Manager D:	*"pls"*
Trader-Submitter D:	"[o]*k*"

E. Reaction to increased media attention

109. This section (paragraphs 110 to 126) deals with directives issued to LIBOR submitters by Group Treasury or ALM during the financial crisis. These were to *"err on the low side"*, be in the "*middle of the pack*", "*move towards... issuance levels"* and revert back to *"middle of the pack*" when determining its LIBOR submissions between August 2007 and at least December 2008. On a number of days UBS's submissions were influenced by these directives.

LIBOR during the financial crisis

110. Liquidity in the interbank market in London reduced significantly following the onset of the financial crisis. In the latter half of 2007 and throughout 2008, interbank lending came to a virtual standstill and there was extreme dislocation in global money markets.

111. During the period from the emergence of the sub-prime crisis at the end of July 2007 to the acquisition of Bear Stearns by JP Morgan in March 2008 and beyond, liquidity issues became a particular focus in the media as the crisis worsened. Following Lehman Brothers' insolvency filing in September 2008 and the failures of RBS and HBOS in October 2008, by the third quarter of 2008, media attention was closely focused on the solvency of financial institutions.

112. The changes in liquidity conditions from mid 2007 affected the way in which banks were able to determine their LIBOR submissions. For example, there was very limited

interbank lending. Therefore the frequency and average size of transactions in the interbank market available for consideration by LIBOR submitters when determining their submissions were very limited.

The adoption of Group Treasury's and ALM's LIBOR directives

113. From mid 2007, as the financial crisis deepened, LIBOR submissions became the topic of media commentary and speculation. On 9 August 2007, Bloomberg published an article commenting on a surge in the USD LIBOR submissions for the overnight tenor on 9 August 2007 of a number of contributing banks, including UBS. The article commented on UBS's submission because it was 65 basis points higher than its previous day's submission. The information contained in this article suggested that UBS's borrowing costs had increased significantly, where those costs were a barometer of its creditworthiness compared to Panel Banks.

114. As a result of this article, UBS investigated the overnight tenor submission that had attracted Bloomberg's attention. UBS concluded that the submission had been made in error.

115. That conclusion was followed by an email on 9 August 2007 from Manager C to three Senior Managers and a Manager which stated that: *"It is highly advisable to err on the low side with fixings for the time being to protect our franchise in these sensitive markets. Fixing risk and PNL thereof is secondary priority for now".* The directive to "*err on the low side*" was intended to result in lower submissions that would send a positive message to the market about UBS's creditworthiness.

116. This email marked the commencement of a directive to *"err on the low side",* the aim of which was to avoid what Group Treasury and ALM believed to be unfair and inaccurate media speculation about UBS's fundraising ability and creditworthiness at that time.

117. On 16 March 2008, JP Morgan announced its acquisition of Bear Stearns for an estimated USD 2 per share. On 1 April 2008, UBS announced additional losses of some $19bn arising from its exposure to sub-prime mortgage losses as well as the departure of its Chairman. This was followed by a downgrading of UBS's creditworthiness by Moody's on the same day and a statement that the rating remained under review for possible further downgrades.

118. On 9 April 2008, UBS's three month USD LIBOR submission was 2.71%. The next day, Manager D queried with Manager C why this submission was so far distant from UBS's three month commercial paper issuance at 2.81%:

Manager D: *"here is a mind fuck for you. If we are doing CP at 2.81% and that is 3m usd libor + 10, why aren't we putting our 3m rate in at 2.81% for libors"*

Manager C: *"we should"*

Manager D *"but then GT* [i.e. Group Treasury] *will rip our boys a new one for being the highest bank in the poll".*

119. On 16 April 2008, The Wall Street Journal published an article about LIBOR submissions with the headline: *"Bankers Cast Doubt on Key Rate Amid Crisis".* The subheading of the article stated that: *"One of the most important barometers of the world's financial health could be sending false signals"*. The article included the statement: *"The Libor system depends on banks to tell the truth about their borrowing rates."* The article highlighted an apparent disparity between LIBOR submissions of various banks and their CP/CD issuance rates. The Wall Street Journal suggested that banks had been suppressing their submissions to avoid signaling to the market that they were in difficulties. The article also referred to an announcement by the BBA that it would ban any bank that was deliberately misquoting its submissions from contributing submissions. The article concluded with a reference to a report published by the Bank for International Settlements that *"banks might have an incentive to provide false rates to profit from derivatives transactions"*.

120. The following day, UBS's USD LIBOR submissions increased, as did the submissions of a number of Panel Banks. Consequently, the BBA's published LIBOR rates also increased. From this point, the "*err on the low side*" directive changed to one of higher submissions by being "*middle of the pack*" and "*moving to issuance*".

121. These directives are evidenced in an electronic chat that same day, 17 April 2008, between the Trader-Submitter who made the USD submission on 9 August 2007 and another Trader-Submitter. The other Trader-Submitter commented: *"...the guidance I got from my management with regards to libors is that we should aim to be in the middle of the pack ... they also want to see the levels we are posting trough* [sic] *the hole* [sic] *curve (they got* [Group Treasury] *on their back again as well)".* This *"guidance"* was intended to avoid further negative media attention. On 21 May 2008, Manager C said that UBS did not want to be seen as an *"outlier...just like everybody else".*

122. UBS continued to receive enquiries from journalists probing apparent anomalies in its LIBOR submissions, joined the FX & MM Committee and attended its first committee meeting at the end of May 2008, at which external issuance rates were discussed. At about this time, UBS committed to moving its submissions closer to its CP/CD issuance levels.

123. This is evidenced in an electronic chat dated 2 June 2008 between Manager D and Manager G. Manager G reported that he had directed that UBS's submissions should be set "*...not at our CP/CD level but in that direction.*" This was followed by an email on 4 June 2008 from Manager G to numerous individuals in ALM, as well as Senior Manager B and Senior Manager C, Manager D, Manager H and others. The email referred to the move towards issuance but highlighted that: *"...it seems that we are the only bank trying to move in that direction..."*

124. UBS maintained the directive to move towards its CP/CD issuance rates for the first two weeks of June 2008. However, it was jettisoned when UBS concluded that it was the only bank trying to base its LIBOR submissions on its CP/CD issuance rates and consequently at risk of becoming an *"outlier"* and thus attracting media attention. UBS's awareness that Panel Banks did not appear to be following it and the need for an urgent return back to *"middle of the pack"* is evidenced in the following electronic chat on 18 June 2008:

Trader D:	*"...*[Senior Manager B] *want us to get in line with the competition by Friday ..."*
Trader Submitter E:	*"... if you are too low you get written about for being too low...if you are too high you get written about for being too high ... "*
Trader D:	*"middle of the pack there is no issue..."*
Trader Submitter E:	*"and if you are in line with the crowd you get written about because the crowd is too low..."*
Trader D:	*"thats why for a long time we were in the middle of the pack and only after...meeting with the bba did we start moving towards our issuance level."*

125. It is clear from the electronic chat on 18 June 2008, that by 17 June 2008, UBS had abandoned its attempt to make its LIBOR submissions by reference to the cost of borrowing and replaced it with going back into the *"middle of the pack"* to avoid the risks of being identified as an *"outlier".* It is also clear from that chat that "*middle of the pack*" had been implemented for *"a long time"* before the FX & MM Committee meeting of 30 May 2008 (referred to as a *"meeting with the bba"* by Trader D in the electronic chat referred to in paragraph 124 above).

126. It appears that the *"middle of the pack"* directive continued until at least December 2008. This is evidenced in the holiday notes of Trader D, who provided market information to assist the Trader-Submitter who, by this time, was the individual responsible for determining USD LIBOR submissions. Before going on holiday, Trader D left a standing instruction: *"We want our fixings to be roughly in the middle of the pack".*

F. The failure of UBS's systems and controls

127. This section (paragraphs 128 to 161), sets out the facts and matters relevant to UBS's systems and controls around its LIBOR and EURIBOR submissions processes over the Relevant Period and also around its transaction monitoring systems and controls.

Trader-Submitter conflict of interest

128. During the period from 1 January 2005 to 1 September 2009 (in relation to LIBOR) and to October 2009 (in relation to EURIBOR), UBS combined the roles of determining its LIBOR and EURIBOR submissions and proprietary trading in derivative products referenced to LIBOR and EURIBOR. This combination of roles was a fundamental flaw in organisational structure given the inherent conflict of interest between these two roles and the absence of any effective means of managing that conflict. There was a clear conflict between the obligation to make submissions in accordance with the published criteria and the responsibility for the profitability of trading positions. Despite this inherent conflict, UBS took no steps to address the cause of the conflict until 1 September 2009 (for LIBOR) and October 2009 (for EURIBOR).

129. Even when the trading and submitting roles were split in September 2009 (in relation to LIBOR) and October 2009 (in relation to EURIBOR), UBS's systems and controls did not prevent Traders from persisting with their Internal Requests and attempting to influence submissions by camouflaging them as *"market colour"*.

130. In addition to manipulating their submissions to take account of Internal Requests from Traders, Trader-Submitters also had the unfettered opportunity to try to manipulate the published rates that determined the profitability or otherwise of their own trading positions.

Absence of controls: LIBOR

131. During the period from 1 January 2005 to 7 August 2008, UBS had no systems, controls or policies governing the procedure for making LIBOR submissions.

132. In addition, no formal training was provided to submitters about the submissions process.

The 2008 Review and the 2008 Procedures

133. As mentioned in paragraph 119 above, The Wall Street Journal published an article in April 2008 about differences between USD LIBOR submissions and other market measures of the borrowing costs of certain Panel Banks, including UBS. The article also referred to a report published by the Bank for International Settlements highlighting that *"banks might have an incentive to provide false rates to profit from derivatives transactions"*. The Wall Street Journal followed up with an article in May 2008 commenting that*: "... banks face a dilemma. If any bank submits a much higher rate than its peers, it risks looking like it's in financial trouble. So banks have an incentive to play it safe by reporting something similar - which could cause the reported rates to cluster."*

134. On 10 June 2008, the BBA published a consultation paper about the future operation of the benchmark. At section 3.3 of the paper, the BBA explained how the LIBOR rate is calculated, explaining that: "*The trimming process removes any outlying data as well as preventing any individual bank from attempting to influence the rates"*. The paper also amplified the LIBOR definition by prescribing that: *"The rates must be submitted by members of staff at a bank with primary responsibility for management of a bank's cash, rather than a bank's derivative book"*.

135. Prompted by media attention (and potential regulatory proceedings) UBS's Legal and Compliance department commenced a limited review of its LIBOR processes and procedures (the "2008 Review"). The 2008 Review concluded on 7 August 2008 and included consideration of the management of potential conflicts of interest in UBS's LIBOR submission process, specifically, the risk of submissions being influenced to benefit trading positions. In the course of the 2008 Review, UBS became concerned about its submissions such that by 24 June 2008, it anticipated imminent regulatory action and/or civil litigation arising from the risks associated with its involvement in LIBOR submissions.

136. As part of the 2008 Review, a sample correlation analysis was performed by Trader-Submitter E, for the period 1 December 2007 up to and including March 2008 for three and six month USD LIBOR submissions and the published LIBOR rate against

net open derivative positions. The purpose of the analysis was to demonstrate that there was no correlation between UBS's USD LIBOR submissions and trading positions.

137. However the 2008 Review was inadequate because:

a. Its scope was limited to USD LIBOR submissions, because that was the LIBOR currency that was the subject of media attention at the time. It did not consider whether there was any linkage between derivatives trading positions and the manipulation of submissions on other currencies;

b. Trader-Submitter E had been responsible for determining UBS's USD submissions in the four month period December 2007 to March 2008. UBS took no account of the risks inherent in asking an individual to investigate their own submissions;

c. When performing the analysis, Trader-Submitter E did not report that he had in fact received and rejected an Internal Request from Trader E in the review period that he was analysing;

d. At least two of the Managers and one Senior Manager who were involved in the 2008 Review were aware of the practice of manipulating LIBOR submissions to benefit trading positions; and

e. The 2008 Review did not take into account the fact that submissions may be being manipulated to benefit particular trading positions of particular Traders. Such misconduct would not necessarily be detected by merely looking at net open derivative positions, because Traders' positions could "offset" the positions of other Traders.

138. UBS concluded that Trader-Submitter E's analysis gave rise to no suspicion of any inappropriate manipulation of the USD LIBOR submissions. UBS did not consider making any enquiries into any other LIBOR currencies or benchmark rates, in particular EURIBOR.

139. The 2008 Review culminated in the preparation of formal procedures and guidelines on 7 August 2008 (the "2008 Procedures"). Amongst other matters, the 2008 Procedures:

a. Identified management who were responsible for the integrity and monitoring of the submission process, as well as senior management to whom unresolved issues and concerns should be escalated; and

b. Introduced a weekly exception reporting regime whereby a comparison was undertaken between UBS's LIBOR submissions and its weighted daily average cost of funds and/or the published rate for the relevant day, with explanations to be sought for deviations. The responsibility for conducting this analysis lay with those Managers who had oversight of the submission process and this information was to be submitted to the division's Compliance department in the form of a report (an "Exception Report" for their independent review).

140. The 2008 Procedures were inadequate in design because:

a. They were based on the 2008 Review, which was itself inadequate;

b. Despite anticipating imminent regulatory action and/or civil proceedings arising from its involvement in LIBOR submissions and having identified a conflict of interest in its LIBOR submission process, the 2008 Procedures did not address the cause of the conflict namely the combination of submission and trading responsibilities;

c. They did not provide any practical guidance to LIBOR submitters or compliance in determining rates;

d. No specific training was provided to those involved in the LIBOR submission process;

e. The tolerance level for exception reporting was set at ten basis points and no subsequent consideration was given as to whether this level was appropriate, or if it needed to be adjusted for each currency;

f. Of the four Managers given responsibility for the integrity and monitoring of the submissions process under the 2008 Procedures, all were aware of the ongoing manipulation namely, Senior Manager B, Senior Manager D, Manager C and Manager D; and

g. They did not direct Traders and Trader-Submitters that it was improper to attempt to manipulate LIBOR to benefit trading positions.

141. The 2008 Procedures were inadequate in operation because:

a. The primary tool available to senior management during the Relevant Period to monitor, identify and resolve issues with the determination of LIBOR submissions was the exception reporting regime. Despite the widespread abuse, it failed to detect a single instance of submission manipulation.

b. Exception Reports were required to be submitted on a monthly rotational basis for JPY, CAD, AUD, SEK and DKK. However, save for a single report on AUD, no Exception Reports were actually prepared for those five currencies throughout the Relevant Period;

c. Contrary to what the procedures stipulated, Exception Reports for the USD overnight tenor submissions were not always prepared; and

d. The 2008 Procedures were premised on the business taking responsibility for the Exception Reports, with Compliance performing an independent secondary review. In practice, Compliance assumed the first line of defence role for the review of the Exception Reports, which was not what was intended and for which they were not appropriately skilled.

142. In any event, whilst Exception Reports were regularly produced, because of an oversight, UBS never actually circulated the 2008 Procedures beyond those involved in their preparation.

143. Even after the introduction of the 2008 Procedures, Traders remained able to make their Internal Requests to influence submissions and were not constrained from doing so by any of UBS's systems and controls.

The FX & MM Committee

144. On 2 July 2008 and 15 September 2008, the FX & MM Committee prepared draft Terms of Reference for LIBOR panel banks. The draft proposed that: "[the rate should not be] *set in reference to information supplied by any individual or institution outside that area of the contributing bank that has the primary responsibility for managing that bank's cash".*

145. UBS Legal and Compliance explained its concern to the Committee on 24 July 2008 and again on 28 October 2008, namely that its wording did not reflect the reality of the situation and that as a practical matter, it would be impossible for the cash desk to analyse the source of all the information on which its good faith perception of UBS's cost of borrowing was based. UBS Legal and Compliance suggested alternative wording (which the FX & MM Committee subsequently adopted) in order to deal with this concern, explaining that it understood what the BBA was seeking to achieve, namely *"that the cash desk takes full responsibility for the submitted rate and that this should not be contributed or unduly influenced by other areas of the bank or outside institutions."*

146. Therefore, when making its representations to the Committee, UBS was aware of the concerns of the BBA and the FX & MM Committee about inappropriate influences on LIBOR submissions and the inherent conflict of interest in its own LIBOR submission function.

147. Furthermore, when making its representations UBS (through a number of Senior Managers and Managers) was aware that it was manipulating submissions itself to benefit its trading positions.

The 2009 Review and the 2009 Procedures

148. In response to a regulatory enquiry in June 2009, UBS's Legal and Compliance function reviewed the 2008 Procedures and the LIBOR submission process ("the 2009 Review"). In the course of the 2009 Review, on 18 August 2009, UBS's Legal and Compliance function queried the appropriateness of Trader-Submitters determining submissions. As a consequence, UBS finally concluded that the combination of roles could no longer continue and was concerned to ensure that this changed prior to signing the BBA's Terms of Reference. It is notable that these are exactly the same terms as those set out in the BBA's amplification of the LIBOR definition (see paragraph 134) at the time of the 2008 Review.

149. UBS issued revised procedures on 11 December 2009 (the "2009 Procedures"), which remained in place until the end of the Relevant Period. The 2009 Procedures retained the framework and principles of the 2008 Procedures and included certain additional features, such as:

a. Providing limited detail about UBS's *"process"*, which stated that LIBOR submissions: *"will be formed on the bank's perception of its cost of unsecured funds in the interbank market using: the liquidity situation of the entire bank* [;] *trades executed in the market / customer feedback* [; and] *general market information and market sentiment provided by STIR desk";*

b. Referring to the then current BBA guidance about submitting reference rates in illiquid markets;

c. The introduction of record keeping procedures; and

d. Documenting the movement on 1 September 2009 of the LIBOR submission function from the STIR Desk to ALM in an attempt to address the existing conflict of interest.

150. The 2009 Review was inadequate because it did not identify and correct many of the failings in connection with the design and implementation of the 2008 Procedures. Thus, the 2009 Procedures were inadequate in design and operation because:

a. They provided only limited practical guidance to LIBOR submitters about determining submissions;

b. Of the three managers who were appointed with specific responsibilities for the integrity, oversight and monitoring of LIBOR submissions in the 2009 Procedures, two of them were aware of the ongoing manipulation, namely, Senior Manager C and Manager D. The third manager, Manager G, was also aware because he recalled that Senior Manager C had on one occasion canvassed with him the idea of building positions and manipulating submissions to benefit those positions; and

d. There was no review or enhancement of the regime for Exception Reports meaning that the failures identified in paragraphs 140(e) and 141 above persisted.

151. The 2009 Procedures stipulated that ALM-Submitters should take into account "*general market information and market sentiment"* (i.e. market colour) from Traders on the STIR Desk. However, UBS failed to put in place any measures to address the risk that when giving this information Traders would camouflage their Internal Requests under the guise of market colour. Furthermore, UBS failed to take this opportunity to expressly communicate to Traders that it was improper to attempt to manipulate LIBOR to benefit trading positions.

152. Despite UBS's effort to address the conflict of interest in its submission process, Traders continued to try to manipulate submissions after the submission function moved to ALM by camouflaging their Internal Requests as "*market colour*". For

example, at least ten individuals, of whom four were Managers were directly involved in at least 15 documented communications about LIBOR or EURIBOR submissions, which were plainly improper.

153. For example, on 29 June 2010, some ten months after the movement of the LIBOR submission function to ALM, the following exchange took place between Trader Submitter C (who had previously been responsible for determining submissions but had relinquished that responsibility to ALM) and Manager F:

Trader-Submitter C:	"*u got 6mth fix position today?*"
Manager F:	*"6mth fixing today? Nothing."*
Trader-Submitter C:	*"ok, gonna set fixing 1bp higher on the 6s ..."*
Manager F:	*"didn't think u set it."*
Trader-Submitter C:	*"been keeping it unchanged previously. I don't, but i give my opinion to the ALM desk. Regarding change, higher/lower. Not the actual rate."*
Manager F:	*"of course"*

154. Given these deficiencies, every LIBOR submission in currencies and tenors in which UBS traded is at risk of having been improperly influenced.

Inadequate internal audits

155. Between January and May 2009, UBS's Group Internal Audit ("GIA") conducted an audit of UBS's STIR Desks. At this time, GIA was aware of the draft Terms of Reference for LIBOR contributors from the FX & MM Committee (that had been issued on 18 December 2008) which noted that: *"Contributors undertake to have their internal processes for submitting rates audited as part of their firm's annual compliance procedures and provide written confirmation to the FX & MM Committee that this audit has been completed"*. GIA was also aware of the need to ensure that a conflict of interest did not arise between those submitting LIBOR rates and other areas of the bank, such as derivative trading books.

156. Despite being aware of the FX & MM Committee's guidance and the ambit of the 2008 Review and the 2008 Procedures, GIA's review was limited to a "walk through" exercise involving a review of the 2008 Procedures and some of the weekly Exception Reports. At the conclusion of that review, GIA did not recommend any further steps or measures in connection with UBS's LIBOR submission process.

157. Accordingly, GIA's 2009 Group Internal Audit Report, which was released in May 2009, did not consider and contained no reference to UBS's LIBOR submission process. During the Relevant Period, GIA performed a further four audits of the STIR

business or STIR trading activities. None of these considered the LIBOR (or EURIBOR) submission process.

Absence of controls: EURIBOR

158. Banks on the EURIBOR panel are required to follow the EURIBOR Code of Conduct. On 12 November 2007, the EBF wrote to EURIBOR Panel Banks and reminded them of their obligations to comply with the Code. The EBF said that: *"to avoid unwanted negative consequences, the panel banks are invited to ensure and maintain systematic and close control in their daily quotations to effectively provide accurate information for the daily calculations of the EURIBOR reference rate [. . .] it is incumbent upon all involved institutions to remain vigilant in their efforts to fully understand and comply with their obligations and best operational practices when providing and/or calculating data."*

159. UBS's sole significant action in connection with its EURIBOR submissions process was removing the responsibility for determining EURIBOR submissions from the STIR Desk and moving it to ALM in October 2009. However, it conducted no reviews and had no systems, controls or policies over its EURIBOR submissions throughout the Relevant Period.

160. As a result, every EURIBOR submission in tenors in which UBS traded is at risk of having been improperly influenced.

Transaction monitoring failures

161. UBS's transaction monitoring systems and controls failed to detect any of the "wash trades" (referred to in paragraph 55 above), which it entered into for the purpose of channelling corrupt payments to Brokers.

FAILINGS

162. The regulatory provisions relevant to this Final Notice are referred to in Annex A.

Principle 5

163. Principle 5 of the FSA's Principles for Business requires that a firm must observe proper standards of market conduct.

164. UBS, acting through its managers and employees, sought to manipulate LIBOR and EURIBOR during the Relevant Period. Accordingly, UBS failed to observe proper standards of market conduct.

Manipulation of submissions to benefit trading positions

165. UBS's submissions routinely took trading positions into account when submitting rates that formed part of the calculation of JPY, GBP, CHF and EUR LIBOR, and EURIBOR.

166. UBS, acting through its managers and employees, also acted in collusion with Brokers and Panel Banks in co-ordinated attempts to influence JPY LIBOR submissions made by Panel Banks.

167. A number of UBS managers knew about and in some cases were actively involved in UBS's attempts to manipulate LIBOR and EURIBOR submissions.

168. In total, improper requests were made directly involving approximately 40 individuals at UBS, 11 of whom were Managers. At least two further Managers and five Senior Managers were also aware of the practice of the manipulation of submissions to benefit trading positions.

169. UBS sought to manipulate LIBOR and EURIBOR submissions in order to improve the profitability of trading positions.

Avoiding negative media comment

170. UBS adopted LIBOR submission directives whose primary purpose was to protect its reputation by avoiding negative media attention about its submissions and speculation about its creditworthiness. On a number of days UBS's submissions were influenced by these directives.

Principle 3

171. Principle 3 of the FSA's Principles for Businesses states that a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

172. UBS breached Principle 3 during the Relevant Period. It did not take reasonable care to organise and control its affairs responsibly and effectively. Nor did it have adequate risk management systems. The duration and extent of misconduct within the Relevant Period was exacerbated by these inadequate systems and controls.

173. During the period from 1 January 2005 to 7 August 2008, UBS had no systems, controls or policies governing the procedure for making LIBOR submissions. There were no systems, controls or policies in relation to EURIBOR submissions throughout the Relevant Period.

174. During the period from 1 January 2005 to 1 September 2009 (in relation to LIBOR) and to October 2009 (in relation to EURIBOR), UBS combined the roles of determining its LIBOR and EURIBOR submissions and proprietary trading in derivative products referenced to LIBOR and EURIBOR. This combination of roles was a fundamental flaw in organisational structure given the inherent conflict of interest between these two roles and the absence of any effective means of managing that conflict. There was a clear conflict between the obligation to make submissions in accordance with the published criteria and the responsibility for the profitability of trading positions.

175. In 2008 UBS carried out a specific review of its systems for LIBOR submissions, which resulted in some new procedures. However this review was inadequately performed, the new procedures were inadequate in their design and further were inadequately implemented. In 2009, UBS performed a second review. Although there were inadequacies with this review, UBS did take steps to address the inherent conflict of interest by removing the responsibility for determining submissions from Traders.

176. Even when the trading and submitting roles were split in September 2009 (in relation to LIBOR) and October 2009 (in relation to EURIBOR), UBS's systems and controls did not prevent Traders from camouflaging their Internal Requests as *"market colour"*.

177. A number of UBS Senior Managers and Managers knew about (and in some cases were actively involved in) UBS's attempts to manipulate LIBOR and EURIBOR submissions, as a result UBS failed to manage the relevant business areas appropriately.

178. The routine and widespread manipulation of submissions was not detected by Compliance, nor was it detected by Group Internal Audit, which undertook five audits of the relevant business area during the Relevant Period.

179. UBS's transaction monitoring systems and controls were inadequate because they failed to detect (and thus prevent) the "wash trades", which were a device to channel corrupt payments to Brokers.

SANCTION

180. The FSA's policy on the imposition of financial penalties and public censures is set out in the FSA's Decision Procedure & Penalties Manual ("DEPP"). The detailed provisions of DEPP are set out in Annex A.

181. In determining the financial penalty, the FSA has had regard to this guidance. The FSA's current penalty regime applies to breaches which take place on or after 6 March 2010. However, most of the Relevant Period falls under the previous penalty regime, so DEPP in its pre-6 March 2010 form has been applied. The FSA has also had regard to the provisions of the FSA's Enforcement Manual ("ENF") relevant to the pre-28 August 2007 part of the Relevant Period.

182. The FSA considers the following DEPP factors to be particularly important in assessing the sanction.

Deterrence - DEPP 6.5.2G(1)

183. The principal purpose of a financial penalty is to promote high standards of regulatory and/or market conduct by deterring persons who have committed breaches from committing further breaches and helping to deter other persons from committing similar breaches, as well as demonstrating generally the benefits of compliant business. The FSA considers that the need for deterrence means that a very significant fine on UBS is appropriate.

Nature, seriousness and impact of the breach - DEPP 6.5.2G(2)

184. UBS's breaches were extremely serious. They took place over nearly six years across a number of LIBOR currencies and EURIBOR. There was a culture where the manipulation of the LIBOR and EURIBOR setting process was pervasive. The manipulation was conducted openly and was considered to be a normal and acceptable business practice by a large pool of individuals. Approximately 40 individuals were directly involved in making or receiving requests, including 11

Managers. In addition, at least a further two Managers and five Senior Managers were aware of the practice.

185. UBS's misconduct extended beyond UBS's own internal submission processes to sustained and repeated attempts to influence the submissions of other banks, acting in collusion with Panel Banks and Brokers at a number of different Broker Firms. Some UBS employees colluded with Brokers in serious market misconduct such as making false bids and offers in the cash market and disseminating false suggestions of appropriate LIBOR rates to Panel Banks and other market participants.

186. There were serious systemic weaknesses in the firm's systems and controls. This meant that UBS's misconduct continued even after the BBA and the EBF had raised concerns about LIBOR and EURIBOR submissions. While UBS attempted to improve its systems and controls in 2008 and again in 2009, they remained inadequate throughout the Relevant Period.

187. LIBOR and EURIBOR are the prevalent benchmark reference rates in a number of relevant markets including markets in OTC derivatives contracts and futures contracts traded on exchanges such as LIFFE in London. LIBOR and EURIBOR also have a wider impact on other markets. The integrity of benchmark reference rates such as LIBOR and EURIBOR is of fundamental importance to both UK and international financial markets. UBS's misconduct threatened the integrity of those benchmarks and confidence in or the stability of the UK financial system.

188. UBS could have caused serious harm to other market participants if the final LIBOR and/or EURIBOR fixes were affected by the actions of UBS's managers and employees on any given day.

The extent to which the breach was deliberate or reckless - DEPP 6.5.2G(3)

189. The FSA does not conclude that UBS as a firm engaged in deliberate misconduct. Nevertheless the improper actions of many UBS employees involved in the misconduct were at least reckless and frequently deliberate. UBS, because of a poor culture in its interest rate derivatives trading business and weak systems and controls, failed to prevent the deliberate, reckless and frequently blatant actions of its employees.

The size, financial resources and other circumstances of the firm DEPP 6.5.2G(5)

190. UBS, and in particular its investment bank, is one of the biggest, most sophisticated and well-resourced financial services institutions in the UK. Serious breaches committed by a firm such as UBS merit the highest penalties.

The amount of benefit gained or loss avoided - DEPP 6.5.2G(6)

191. UBS sought to manipulate LIBOR and EURIBOR submissions in order to improve the profitability of trading positions. The FSA has not determined the net impact on UBS's profits that is attributable to this misconduct. However, it is clear that substantial sums were at stake.

Conduct following the breach - DEPP 6.5.2G(8)

192. In determining the appropriate level of penalty, the FSA considered the level of cooperation provided by UBS during the course of the FSA's investigation.

Other action taken by the FSA - DEPP 6.5.2G(10)

193. On 27 June 2012 the FSA issued a final notice against Barclays Bank plc in respect of misconduct similar to UBS's misconduct as described in this notice. UBS's misconduct is, although similar in nature, considerably more serious than Barclays' because it was more widespread within the firm, being exacerbated by the control failings, in particular the inherent conflict of interest in its submission function. More individuals, including Managers and Senior Managers, participated in or knew about the manipulation and there were more instances of individual manipulation, across more currencies. Furthermore, the extent to which UBS colluded with others was significantly greater and involved financial rewards being paid to Broker Firms.

PROCEDURAL MATTERS

Decision maker

194. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

195. This Final Notice is given under, and in accordance with, section 390 of the Act.

Manner of and time for Payment

196. The financial penalty must be paid in full by UBS to the FSA by no later than 2 January 2013, 14 days from the date of the Final Notice.

If the financial penalty is not paid

197. If all or any of the financial penalty is outstanding on 3 January 2013, the FSA may recover the outstanding amount as a debt owed by UBS and due to the FSA.

Publicity

198. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to UBS or prejudicial to the interests of consumers.

199. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

200. For more information concerning this matter generally, UBS should contact Karen Oliver (direct line: 020 7066 1316) or Jeremy Parkinson (direct line: 020 7066 0224) at the FSA.

Matthew Nunan
FSA Enforcement and Financial Crime Division

ANNEX A

RELEVANT STATUTORY PROVISIONS, REGULATORY REQUIREMENTS AND FSA GUIDANCE

1 STATUTORY PROVISIONS

1.1 The FSA's statutory objectives, set out in section 2(2) of the Act, are market confidence, financial stability, consumer protection and the reduction of financial crime.

1.2 Section 206 of the Act provides:

".if the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate".

1.3 UBS is an authorised person for the purposes of section 206 of the Act. The requirements imposed on authorised persons include those set out in the FSA's rules made under section 138 of the Act.

2 REGULATORY PROVISIONS

2.1 In exercising its power to issue a financial penalty, the FSA must have regard to the relevant provisions in the FSA Handbook of rules and guidance (the FSA Handbook).

2.2 In deciding on the action proposed, the FSA has also had regard to guidance published in the FSA Handbook and set out in the Regulatory Guides, in particular the Decision Procedure and Penalties Manual (DEPP).

Principles for Businesses (PRIN)

2.3 The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the FSA's Handbook. They derive their authority from the FSA's rule-making powers as set out in the Act and reflect the FSA's regulatory objectives. The relevant Principles are as follows:

2.4 Principle 3 provides:

"A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems".

Principle 5 provides:

"A firm must observe proper standards of market conduct".

Decision Procedure and Penalties Manual (DEPP)

2.5 Guidance on the imposition and amount of penalties is set out in Chapter 6 of DEPP. Changes to DEPP were introduced on 6 March 2010. Given that the majority of the misconduct occurred prior to that date, the FSA has had regard to the provisions of DEPP in force prior to that date.

2.6 DEPP 6.1.2 provides that the principal purpose of imposing a financial penalty is to "promote high standards of regulatory and/or market conduct by deterring persons who have committed breaches from committing further breaches, helping to deter other persons from committing similar breaches, and demonstrating generally the benefits of compliant behaviour".

2.7 DEPP 6.5.2 sets out some of the factors that may be taken into account when the FSA determines the level of a financial penalty that is appropriate and proportionate to the misconduct as follows:

1. deterrence;

2. the nature, seriousness and impact of the breach in question;

3. the extent to which the breach was deliberate and reckless;

4. whether the person on who the penalty is to be imposed is an individual;

5. the size, financial resources and other circumstances of the person on whom the penalty is to be imposed;

6. the amount of benefit gained or loss avoided;

7. difficulty of detecting the breach;

8. conduct following the breach;

9. disciplinary record and compliance history;

10. other action taken by the FSA;

11. action taken by other domestic or international regulatory authorities;

12. FSA guidance or other published materials; and

13. the timing of any agreement as to the amount of the penalty.

2.8 The FSA has also had regard to the provisions of the Enforcement manual (ENF) in force prior to 28 August 2007, in relation to misconduct which occurred prior to that date.