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CORRESPONDENCE MEMORANDUM

DATE: May 17, 2013

TO: Wisconsin Deferred Compensation Board

FROM: David Nispel, Chief Legal Counsel
Shelly Schueller, Deferred Compensation Director

SUBJECT: LIBOR Rate Manipulation Update

This memo is for informational purposes only. No Board action is required.

The London Interbank Offered Rate (LIBOR) is an influential benchmark interest rate used by financial institutions around the world. It is set daily in London by a group of banks that submit the interest rates they would expect to pay on a loan from another bank. LIBOR is also used as a foundation for other rates, such as adjustable rate mortgages. In mid-2012, a scandal erupted regarding LIBOR rate setting when it was discovered that banks were colluding to falsely report their rates. This was apparently done to make their banks appear more creditworthy and to profit from trades.

Manipulating the LIBOR interest rates is illegal and international banks including Barclays Bank and the Royal Bank of Scotland (RBS) in the United Kingdom and Swiss Bank UBS have been heavily fined for documented LIBOR manipulation. Additional banks are under investigation and lawsuits have been filed by those who feel they have been harmed by artificial LIBOR rate setting.

Department staff continues to closely watch developments related to LIBOR rate setting, as the Wisconsin Deferred Compensation Board uses the LIBOR for the Federal Deposit Insurance Corporation (FDIC) bank option offered by BMO Harris Bank. Wisconsin Deferred Compensation (WDC) participants holding assets in the FDIC account receive a blended rate of interest based on the fixed/floating interest rate allocation selected by the WDC Board. BMO Harris Bank reports that it does not participate in the setting of LIBOR US dollar rates, nor does its parent company (BMO Financial Group). Both firms are monitoring the issue.

Reviewed and approved by Robert J. Marchant, Deputy Secretary

RJM

Electronically Signed 5/29/13

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In late March, a federal judge in the U.S. District Court in Manhattan dismissed claims by three out of the four main plaintiff groups. These groups, which included U.S. cities, counties and other bondholders, filed lawsuits in January 2013 that alleged they suffered millions of dollars of losses because of LIBOR manipulation. As reported by Reuters on March 29, 2013, the federal judge “granted the banks’ motions to dismiss federal antitrust claims and partly dismissed the plaintiff’s claims of commodities manipulation. She also dismissed racketeering and state-law claims.”[1]

On May 13, 2013, a LIBOR-related lawsuit against Barclays that claimed the bank violated U.S. securities laws through financial statements misfiling was dismissed by another federal judge in Manhattan. The judge ruled that “alleged misstatements didn't violate the law or lacked a sufficient connection to Barclays' practices with regard to LIBOR.” The judge concluded the complaint suffers from “fundamental deficiencies under the securities laws” and that it would be “futile” to let the investors refile it.”[2]

Department staff will continue to monitor the situation and update the Board on the situation at future Board meetings.

Staff will be available at the June 5, 2013, meeting to discuss the information in this memo.

Attachments: *The New York Times* March 29, 2013 Article
Bloomberg May 14, 2013 Article

[1] “Judge Rejects Much of Libor Lawsuit Against Banks” Reuters, as published by *The New York Times* on March 29, 2013.

[2] LIBOR investor suit against Barclays dismissed by U.S. judge” *Bloomberg*, May 14, 2013.

The New York Times

Judge Rejects Much of Libor Lawsuit Against Banks

By REUTERS

Published: March 29, 2013

The world's biggest banks won a major victory on Friday when a judge dismissed a "substantial portion" of the claims in private lawsuits accusing them of rigging global benchmark interest rates.

Sixteen banks had faced claims totaling billions of dollars in the case, which had been considered their biggest legal threat aside from investigations being pursued by regulators in the United States and Europe into manipulation of the London Interbank Offered Rate, known as Libor. The list of banks includes Bank of America, Citigroup, Credit Suisse, Deutsche Bank, HSBC and JPMorgan Chase.

The banks had been accused by a diverse body of plaintiffs, as varied as bondholders and the City of Baltimore, of conspiring to manipulate Libor, a benchmark at the heart of more than $550 trillion in financial products.

But in the ruling on Friday, Judge Naomi Reice Buchwald of United States District Court in Manhattan, while acknowledging that her decision "might be unexpected," granted the banks' motion to dismiss federal antitrust claims and partly dismissed the plaintiffs' claims of commodities manipulation. She also dismissed racketeering and state-law claims.

Judge Buchwald allowed a portion of the lawsuit to continue: the claims that banks' purported manipulation of Libor had harmed traders who bet on interest rates. Small shifts in rates can mean sizable gains or losses.

The decision may also make it more likely that banks will have an advantage in potential settlement talks.

LIBOR investor suit against Barclays dismissed by U.S. judge

BY BLOOMBERG | MAY 14, 2013 3:27 PM

Barclays PLC won dismissal of a lawsuit by holders of its American depository receipts who claimed the U.K. bank misled shareholders about its manipulation of the London interbank offered rate.

U.S. District Judge Shira Scheindlin on Monday dismissed the suit, filed last year, on behalf of a class of investors who bought Barclays' ADRs between July 10, 2007, and June 27, 2012. Ms. Scheindlin said the alleged misstatements didn't violate the law or lacked a sufficient connection to Barclays' practices with regard to LIBOR.

The judge concluded the complaint suffers from “fundamental deficiencies under the securities laws” and that it would be “futile” to let the investors refile it.

The investors, led by the $1.7 billion St. Louis Carpenters Pension Trust Fund and $1.1 million St. Clair Shores (Mich.) Police & Fire Retirement System, claimed Barclays violated U.S. securities laws through misstatements in financial filings, in a conference call with analysts and in the rates it submitted for use in setting LIBOR. The plaintiffs also claimed Barclays failed to disclose contingent liabilities as required by regulators.

LIBOR is a key metric for setting interest rates for trillions of dollars in financial instruments. It fixes the rates under which banks lend money to one another for as little as a day and as long as a year. Rates for 10 different currencies including the U.S. dollar, Japanese yen and British pound are computed daily after canvassing banks whose representatives compose membership panels for each type of money.

Global authorities have been investigating claims that more than a dozen banks altered submissions used to set benchmarks such as LIBOR to profit from bets on interest-rate derivatives or make the lenders' finances appear healthier.

Barclays agreed to pay £290 million ($441 million) and Royal Bank of Scotland Group paid $612 million to U.S. and U.K. regulators to resolve claims. UBS AG agreed to pay 1.4 billion Swiss francs ($1.47 billion).