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U.S. appeals court revives Schwab Libor-rigging claims against banks

Jonathan Stempel

NEW YORK (Reuters) - Charles Schwab Corp and several of its mutual funds persuaded a U.S. appeals court on Friday to revive their lawsuit seeking to hold 17 banks responsible for manipulation of the benchmark Libor interest rate.

FILE PHOTO: A Charles Schwab office is shown in Los Angeles, California January 29, 2016. REUTERS/Mike Blake

In a 3-0 decision, the 2nd U.S. Circuit Court of Appeals in Manhattan said a lower court judge erred in dismissing Schwab's federal securities law claims over alleged misrepresentations by banks that caused it to buy floating-rate debt tied to Libor.

The judge was "wrong to assume, at the pleading stage, that Schwab was not harmed by, and may have even benefitted from, Libor manipulation," Circuit Judge Gerard Lynch wrote in a 64-page decision.

Lynch said the lower court judge, U.S. District Judge Naomi Reice Buchwald, also concluded incorrectly that she lacked jurisdiction over various Schwab claims under California law, and that Schwab brought some unjust enrichment claims too late.

Schwab sought damages tied to $665 billion of transactions, including more than $40 billion of debt issued by Bank of America, Citigroup, Credit Suisse, Deutsche Bank, HSBC, JPMorgan Chase, Norinchukin [NORB.UL], Rabobank [RABO.UL], Royal Bank of Canada, Royal Bank of Scotland and UBS.

It claimed that banks conspired to suppress Libor, causing the San Francisco-based discount brokerage and its bond and money market funds to earn lower returns.

Friday's decision revived claims that Buchwald dismissed in October 2015, in what Lynch called a "Herculean" 436-page ruling involving Schwab and other plaintiffs. Buchwald also oversees a variety of other Libor manipulation.

Schwab and its outside lawyer Thomas Goldstein did not immediately respond to requests for comment. Neal Katyal, who according to court records argued on the banks' behalf, did not immediately respond to similar requests.

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Libor, or the London Interbank Offered Rate, is used by banks to set rates on hundreds of trillions of dollars of credit card, mortgage, student loan and other transactions, and to determine the cost of borrowing from each other.

Banks have paid roughly $9 billion to settle Libor-rigging probes worldwide. Last July, the head of the U.K. Financial Conduct Authority said that regulator will phase out Libor by the end of 2021, citing a lack of data underpinning it.

The case is Charles Schwab Corp et al v Bank of America Corp et al, 2nd U.S. Circuit Court of Appeals, No. 16-01189.

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