SIGTARP | Office of the Special Inspector General For The Troubled Asset Relief Program

FOR IMMEDIATE RELEASE
Thursday, October 26, 2017

Media Inquiries: 202-927-8940
sigtarp.gov
@SIGTARP

RBS SECURITIES INC. AGREES TO PAY $35 MILLION PENALTY RELATED TO SECURITIES FRAUD SCHEME

Christy Goldsmith Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP), Deirdre M. Daly, United States Attorney for the District of Connecticut, and Patricia M. Ferrick, Special Agent in Charge of the New Haven Division of the Federal Bureau of Investigation, today announced that global securities firm RBS Securities Inc. and the U.S. Attorney's Office have entered into a non-prosecution agreement relating to RBS's fraudulent trading through its now-defunct U.S. Asset-Backed Securities, Mortgage-Backed Securities and Commercial Mortgage-Backed Securities Trading group. As part of this agreement, RBS will pay a monetary penalty of $35 million and pay more than $9 million of restitution to victim customers, which include firms affiliated with recipients of federal bailout funds through the Troubled Asset Relief Program.

The government's investigation revealed that RBS – principally from its trading floor in Stamford, Connecticut – perpetrated a scheme from 2008 to 2013 to defraud its customers in trades of residential mortgage-backed securities (RMBS) and collateralized loan obligations (CLOs). The purpose and effect of RBS's fraud was to increase its profits on RMBS and CLO trades at the expense of victim customers. RBS conducted this scheme by, through and with its employees, who acted with the knowledge, encouragement and participation of RBS supervisors or its compliance-related personnel.
RBS conducted its scheme in various ways. First, RBS misrepresented material facts to deceive and cheat its customers in trades. For instance, in certain transactions, RBS lied to the buyer about the seller's asking price (or vice versa), keeping the difference between the price paid by the buyer and the price paid to the seller for RBS. In other transactions, RBS misrepresented to the buyer that bonds held in RBS's inventory were being offered for sale by a fictitious third-party seller, which allowed RBS to charge the buyer an extra, unearned commission. Second, RBS instructed its RMBS and CLO traders in, and caused them to use, fraudulent trading practices. Third, RBS lied to victims who detected or suspected that they had been the victims of fraud. Fourth, RBS ignored or refused to act on complaints by its own employees who were not part of the scheme. Fifth, RBS used its purportedly independent proprietary trading operation, known as its "prop desk," as an arm of its RMBS and CLO trading desk in order to deceive rival broker-dealers in trades, including by allowing its RMBS and CLO traders to direct the prop desk's negotiations in the sale of bonds. Finally, RBS concealed its fraudulent conduct from its customers, and from its own employees who were not participants in the scheme, in order to prevent or delay discovery.

"This investigation uncovered that RBS officials committed a long-running scheme to increase profits by defrauding customers, including TARP banks," said Christy Goldsmith Romero, Special Inspector General for the Troubled Asset Relief Program. “I applaud RBS's prompt decision to cooperate fully with SIGTARP’s investigation that, in addition to this settlement, helped lead to the convictions of an RBS trader and an RBS supervisor. RBS’s cooperation in SIGTARP’s investigation and subsequent actions to right this wrong are the correct response when federal law enforcement shows up. U.S. Attorney Deirdre Daly has my deep gratitude as she and her team have stood steadfast with SIGTARP as a leader in fighting RMBS crime related to TARP.”

“For years, RBS fostered a culture of securities fraud,” said U.S. Attorney Daly. “Those in a position of authority taught and encouraged fraudulent trading practices. Worse, those supervisors and compliance personnel then took steps to prevent victims and honest RBS employees from discovering and exposing the scheme. After our joint investigation into fixed income trading began, RBS saw the error of its ways. RBS was able to avoid criminal charges in this case only because of its voluntary self-reporting and extraordinary cooperative efforts. By entering into this agreement, RBS has admitted the seriousness of its past criminal conduct and made a clean break. This is another step in our continuing joint effort to make clear to broker-dealers that lying to customers to increase profits is a crime, and that only by rooting out and reporting such misconduct on their own trading floors can they avoid significant criminal liability. We thank SIGTARP and Connecticut FBI for their excellent work on this important case.”

“It is incredibly troubling that RBS supervisors participated in and encouraged lower level employees to commit securities fraud, then took steps to prevent honest employees from reporting their concerns,” said FBI Special Agent in Charge Ferrick. “Had RBS not decided to self-report and cooperate, it would have faced much harsher consequences for its egregious criminal conduct. The U.S. Attorney’s Office, SIGTARP and the FBI have forged a formidable partnership in our investigation into fraud in the RMBS and related markets.”

Under the terms of the non-prosecution agreement, which was entered into on October 25, 2017, RBS agreed to pay a penalty of $35 million and make restitution to victims of at least $9,091,317.14. This resolution takes into account RBS’s voluntary self-reporting, extensive and continuing commitment to cooperate, acceptance of responsibility for its and its employees’ conduct, and remediation efforts. The U.S. Attorney’s Office did not require RBS to retain an independent consultant to assess and improve RBS’s compliance and ethics program because RBS’s U.S. Asset-Backed Securities, Mortgage-Backed Securities and Commercial Mortgage-Backed Securities Trading group substantially ceased operations in March 2015 and RBS has already taken steps to reasonably prevent and detect further fraud.
The agreement announced today addresses only the corporate criminal liability of RBS Securities Inc., not potential criminal charges for any individual. The criminal investigation of individuals associated with RBS’s trading activities remains open.

On March 11, 2015, Matthew Katke, a registered broker-dealer and managing director at RBS, pleaded guilty to conspiracy to commit securities fraud and began cooperating with the government. On December 21, 2015, Adam Siegel, the Co-Head of U.S. Asset-Backed Securities, Mortgage-Backed Securities and Commercial Mortgage-Backed Securities Trading at RBS, pleaded guilty to that same charge and also began cooperating.

This matter is being investigated by the Special Inspector General for the Troubled Asset Relief Program and the Federal Bureau of Investigation. The case is being prosecuted by Assistant U.S. Attorneys Jonathan Francis and Heather Cherry.

This case received support from the Financial Fraud Enforcement Task Force, a federal and state law enforcement effort focused on investigating and prosecuting significant financial crimes and on recovering proceeds for victims of financial crimes.

About SIGTARP

The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is a federal law enforcement agency that targets financial institution crime and is an independent watchdog protecting taxpayer dollars. SIGTARP investigations have resulted in the recovery of $10 billion and 237 defendants sentenced to prison.

To report a suspected crime related to TARP, call SIGTARP's Crime Tip Hotline: 1-877-744-2009. To receive alerts about reports, audits, media releases, and other SIGTARP news, sign up at www.SIGTARP.gov. Follow SIGTARP on Twitter @SIGTARP.

###