
FINAL NOTICE

To: **Martin Brokers (UK) Ltd (Martins)**
Address: Cannon Bridge House, 25 Dowgate Hill, London EC4R 2BB
Reference Number: 187916
Date: 15 May 2014

1. ACTION

- 1.1. For the reasons given in this notice, the FCA hereby imposes on Martins a financial penalty of £630,000 in accordance with section 206 of FSMA.
- 1.2. The FCA would have fined Martins £3,600,000, subject to the appropriate discount (if applicable) under the FCA's executive settlement procedures. Given Martins' financial circumstances however, in particular, the fact that Martins would be unable to pay a penalty of this amount (together with the other regulatory liabilities that Martins faces in relation to LIBOR), the FCA has reduced the fine by 75% to £900,000 and has agreed to accept payment in instalments over three years.
- 1.3. Martins agreed to settle at an early stage of the FCA's investigation and therefore qualified for a 30% (Stage 1) discount under the FCA's executive settlement procedures. Were it not for this discount, the FCA would have imposed a financial penalty of £900,000 on Martins.

2. SUMMARY OF REASONS

- 2.1. The FCA has taken this action because, during the period from 1 January 2007 to 31 December 2010, Martins breached Principles 5 and 3 through misconduct relating to the calculation of JPY LIBOR.
- 2.2. In breach of Principle 5, Brokers at Martins colluded with a Trader at UBS (Trader A) as part of a co-ordinated attempt to influence JPY LIBOR submissions made by Panel Banks, in an attempt to manipulate the published JPY LIBOR rate.
- 2.3. In breach of Principle 3, Martins failed to have adequate risk management systems or effective controls in place to monitor and oversee its broking activity.

LIBOR

- 2.4. LIBOR is a benchmark reference rate fundamental to the operation of both UK and international financial markets. Its integrity is of fundamental importance to confidence in the financial system.
- 2.5. LIBOR was, at the relevant time, published daily in a number of currencies and maturities and set according to a definition published by the BBA. It was based on interbank borrowing in the London market and Panel Banks made daily submissions to the BBA to enable LIBOR to be calculated.

Principle 5 breaches

- 2.6. During the Relevant Period, Brokers at Martins acted improperly and breached Principle 5 by failing to observe proper standards of market conduct. Its Brokers colluded with Trader A as part of a coordinated attempt to influence JPY LIBOR submissions made by Panel Banks, in an attempt to manipulate the final published JPY LIBOR rate.
- 2.7. Brokers at Martins attempted to influence JPY LIBOR submissions made by Panel Banks by suggesting to the Panel Banks that they make JPY LIBOR submissions at levels requested by Trader A.
- 2.8. Brokers at Martins knew that the levels requested by Trader A were incorrect or misleading and they understood that Trader A was attempting to manipulate the final published JPY LIBOR rate in order to improve the profitability of his Trading Positions.
- 2.9. Brokers at Martins were in regular contact with Panel Banks. On occasion, they provided Panel Banks with "Run-Throughs". A Run-Through was Martins' assessment (purportedly based on the knowledge it had gained through its participation in transactions in the market and its general view of the market) of the correct level of JPY LIBOR.
- 2.10. In particular, on or around dates when the level of the final published JPY LIBOR rate was of particular significance to the profitability of Trader A's Trading Positions, the Brokers:

2.10.1 requested that Panel Banks make specific JPY LIBOR submissions at levels that would benefit Trader A;

- 2.10.2 provided misleading Run-Throughs to Panel Banks. They were misleading because they did not reflect their independent assessment of the market but instead took into account JPY LIBOR levels requested by Trader A, and
- 2.10.3 created false (or “spooft”) orders, with the aim of influencing Panel Banks’ views of the cash market so that they would make JPY LIBOR submissions at levels that benefitted Trader A.
- 2.11 Martins assisted Trader A because he was a significant client who accounted for a substantial proportion of the revenue of the JPY desk at Martins.
- 2.12 UBS, through Trader A, also entered into “wash trades” (i.e. risk free trades that cancelled each other out and which had no legitimate commercial rationale) with Martins, in order to facilitate corrupt brokerage payments to Brokers as a reward for their attempts to influence the JPY LIBOR submissions of Panel Banks.
- 2.13 At least three Brokers, one of whom was also a Manager, colluded with Trader A in attempting to manipulate the published JPY LIBOR rate. At least one other Broker facilitated the wash trades. At least one other Manager was aware that wash trades had been executed to pay Brokers additional brokerage payments.
- 2.14 In total, UBS made at least 600 requests to Martins during the Relevant Period. Although Brokers did not usually accommodate these requests, they followed them on specific occasions, when Trader A had large fixings or when they were keen to boost their commission.
- 2.15 Martins’ breaches of Principle 5 were extremely serious. Its misconduct gave rise to a risk that the published JPY LIBOR rate would be manipulated and undermined the integrity of that rate. Martins’ collusion with UBS, and Martins’ provision of misleading Run-Throughs to several Panel Banks, significantly increased the risk of manipulation of the published JPY LIBOR rate. This was 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.
- 2.16 The use of spoof orders by Brokers further aggravated this risk.

Principle 3 breaches

- 2.17 During the Relevant Period, Martins breached Principle 3 by failing to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems or effective controls in place to monitor and oversee its broking activity.
- 2.18 Martins failed to have adequate systems and controls in place during the Relevant Period to address the risk of collusion between Brokers and their clients.
- 2.19 Martins had minimal policies and procedures in place to govern individual Broker behaviour and those that were in place were inadequately designed and easily circumvented.
- 2.20 Martins had no effective compliance function with limited training for Brokers and no effective compliance monitoring to detect Broker misconduct. There was an absence of effective transaction monitoring procedures, such as might reasonably have detected the wash trades.

- 2.21 Martins' reporting lines and responsibilities were unclear at every level, including amongst senior management, meaning that responsibility for compliance oversight of individual Brokers was unclear and effectively uncontrolled as a result.
- 2.22 Martins' lack of adequate systems, controls, supervision and monitoring throughout the Relevant Period meant that this serious and widespread misconduct went undetected and continued unabated throughout the Relevant Period.

Penalty

- 2.23 The integrity of benchmark reference rates such as LIBOR is of fundamental importance to both UK and international financial markets. Martins' misconduct could have caused serious harm to other market participants. Martins' misconduct also undermined the integrity of LIBOR and threatened confidence in and the stability of the UK financial system.
- 2.24 The misconduct of certain Brokers was routine and widely known within the firm. They engaged in this serious misconduct in order to serve their own interests. The duration and extent of Martins' misconduct was exacerbated by its inadequate systems and controls.
- 2.25 The FCA therefore considers it is appropriate to impose a very significant financial penalty of £900,000 on Martins in relation to its misconduct during the Relevant Period.

3. DEFINITIONS

- 3.1. The following definitions are used in this notice:

"Arbitrage Desk" means Martins' arbitrage desk;

"Authority" means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority;

"BBA" means the British Bankers' Association;

"Broker" means an interdealer broker employed by Martins during the Relevant Period, acting as intermediary in, amongst other things, deals for funding in the cash markets and interest rate derivatives contracts. Brokers A to E are referred to in in this notice. Brokers A and B are as referred to in the UBS Final Notice;

"DEPP" means the FCA's Decision Procedure & Penalties Manual;

"EG" means the FCA's Enforcement Guide;

"ENF" means the FCA's Enforcement Manual;

"FSMA" means the Financial Services and Markets Act 2000;

"JPY" means Japanese Yen;

"JPY Desk" means Martins' JPY desk;

"JYP LIBOR" means the LIBOR for JPY;

"LIBOR" means London Interbank Offered Rate;

"Manager" means a Martins employee with direct line management responsibility over Martins Brokers during the Relevant Period;

"Martins" means Martin Brokers (UK) Ltd;

“Panel Bank” means a bank with a place on the BBA panel for contributing LIBOR submissions in one or more currencies. Panel Banks 1 to 8 are referred to in this notice. Panel Banks 1, 4 and 5 are as referred to in the UBS Final Notice;

“Principle 3” means Principle 3 (Management and control) of the FCA’s Principles for Businesses;

“Principle 5” means Principle 5 (Market conduct) of the FCA’s Principles for Businesses;

“Relevant Period” means 1 January 2007 to 31 December 2010;

“Run-Through” means the information Martins provided to its clients, concerning bid and offer prices for cash as well as suggestions as to where Martins believed the published LIBOR rate would set for that day;

“Trader” means a person trading interest rate derivatives or trading in the money markets. Three Traders are referred to in this notice, from Traders A to C. Traders A and C are as referred to in the UBS Final Notice;

“Trader-Submitter” means a Trader at a Panel Bank other than UBS who also had responsibility for making LIBOR submissions. Seven Trader-Submitters are referred to in this Notice, from Trader-Submitter A to G;

“Trading Positions” means trading book positions held either in respect of derivative positions or money market positions;

“Tribunal” means the Upper Tribunal (Tax and Chancery Chamber);

“UBS” means UBS AG;

“UBS Final Notice” means the final notice issued to UBS on 19 December 2012.

4. FACTS AND MATTERS

Background

LIBOR and interest rate derivative contracts

- 4.1. LIBOR is the most frequently used benchmark for interest rates globally; it is referenced in transactions with a notional outstanding value of at least USD 500 trillion. During the Relevant Period, LIBOR was published for ten currencies and fifteen maturities. JPY LIBOR is a widely used benchmark rate.
- 4.2. Interest rate derivatives contracts typically contain payment terms that refer to benchmark rates. LIBOR is by far the most prevalent benchmark rate used in over-the counter interest rate derivatives contracts and exchange traded interest rate contracts.
- 4.3. LIBOR was, at the relevant time, published on behalf of the BBA. LIBOR (in each relevant currency) was set by reference to the assessment of the interbank market made by a number of Panel Banks. The Panel Banks were selected by the BBA. Each Panel Bank contributed rate submissions each business day.
- 4.4. These submissions were not averages of the relevant Panel Banks’ transacted rates on a given day. The BBA required Panel Banks to exercise their judgement in evaluating the rates at which money may be available to them in the interbank market when determining their submissions.
- 4.5. During the Relevant Period, the LIBOR definition published by the BBA and available to participants in UK and international financial markets was 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."

- 4.6. The definition of LIBOR required submissions related to funding from the Panel Banks. It did not allow for consideration of factors unrelated to borrowing or lending in the interbank market, such as Trading Positions.
- 4.7. During the Relevant Period (particularly during the financial crisis), there was very little interbank lending to guide LIBOR submitters at Panel Banks. Submitters at those Panel Banks therefore came to rely increasingly on broker-provided market colour and Run-Throughs to inform their LIBOR submissions.

Martins' role in the financial markets and LIBOR

- 4.8. Martins is a voice broker, acting for institutional clients transacting in the wholesale financial markets. During the Relevant Period, Martins' main role was to bring together counterparties to execute trades in return for commissions and where necessary, to provide information to clients.
- 4.9. The information Martins provided to its clients included advice as to where it believed the published LIBOR rates would be set on particular days.
- 4.10. Amongst other things, as a broker, Martins helps facilitate interbank funding by introducing and assisting clients (including Panel Banks) to negotiate: (i) deposits and loans; and (ii) trades in relation to interest rate derivatives products that are directly referenced to LIBOR rates. This provides Martins with particular market insight into cash trading prices and expected published LIBOR rates. Based on this insight Martins is able to provide clients (including Panel Banks) with suggestions, in Run-Throughs, as to where LIBOR may set on particular dates.

Martins' internal structure

- 4.11. Martins is organised into various "desks" of Brokers. Each desk specialises in facilitating trades in different currencies and financial products on behalf of its clients.
- 4.12. In addition to their basic salary, Brokers were also paid a bonus that represented a percentage of net profit generated on a quarterly basis. Any agreed bonus was shared between the Brokers on the desk. During the Relevant Period, 30 percent of this net profit amount was paid to the Brokers and 70 percent was retained by Martins.
- 4.13. On most desks bonuses were calculated on an individual basis. However, the JPY Desk was different in that commission income from all of its Brokers was pooled. The JPY Desk comprised eight to ten Brokers and the bonus was shared equally between each of these Brokers.
- 4.14. During the Relevant Period, the Arbitrage Desk was responsible for executing trades for institutional clients (including Panel Banks) in relation to instruments between different currencies, including JPY.

Principle 5 breaches: attempts to manipulate JPY LIBOR rates

Martins' collusion with Trader A

- 4.15. During the Relevant Period, Brokers colluded with Trader A as part of a co-ordinated attempt to influence JPY LIBOR submissions made by Panel Banks, in an attempt to manipulate the final published JPY LIBOR rate.
- 4.16. Brokers attempted to influence JPY LIBOR submissions made by Panel Banks by suggesting to the Panel Banks that they make JPY LIBOR submissions at levels requested by Trader A.
- 4.17. Trader A usually made his requests to Broker A. If Broker A was unavailable he would then make his requests to Broker B, who was one of Broker A's colleagues on the JPY Desk.
- 4.18. For example, on 18 July 2008, Trader A wanted a lower one month JPY LIBOR rate. In a Bloomberg exchange with Broker A, Trader A identified the JPY LIBOR submission made by Panel Bank 1 the previous day as: "*a joke*". Trader A asked whether Broker A had: "*spoken to [Panel Bank 1] re his 1m fix*".
- 4.19. Panel Bank 1 was a client of Broker B. At Broker A's request, Broker B called Trader-Submitter A, Panel Bank 1's JPY LIBOR submitter. Broker B requested that he set his one month JPY LIBOR submission at: "*65...got someone asking here...if you can...or as low as possible basically*". Trader-Submitter A agreed to set Panel Bank 1's one month JPY LIBOR submission at 0.63.
- 4.20. Panel Bank 1's one month JPY LIBOR submission was 0.63 that day, down from 0.71 on the previous day. This resulted in Panel Bank 1 moving to equal thirteenth in the ranking of Panel Banks, from equal first on the previous day.
- 4.21. Occasionally, Broker A was assisted by Brokers on both the JPY Desk and on the Arbitrage desk.
- 4.22. For example, on 25 February 2009, Trader A telephoned Broker A and stated that he wanted lower JPY LIBOR submissions in each of the one, three and six month maturities (or "tenors"). Trader A added that he was: "*just trying to think who you might be able to ****ing lean on a bit today...it's really important to get the threes down for me...*".
- 4.23. Trader A asked Broker A to approach various Panel Banks, including Panel Bank 2 and Panel Bank 3, in order to suggest that they lower their three month JPY LIBOR submissions. Later that day, Broker A spoke with Trader-Submitter B, the JPY LIBOR submitter at Panel Bank 2:

Broker A: *Can I ask you a small favour?*

Trader-Submitter B: *Yeah.*

Broker A: *What are you going to set in your LIBOR 3s today?*

Trader-Submitter B: *Ah, same, 65.*

Broker A: *Is there any way you might be able to set them down a pip 'cause I'm getting a big trade out of it?*

Trader-Submitter B: *Sorry?*

Broker A: *I'm getting someone do me a big trade if they said if I help them sort of get LIBORs down a tick today.*

Trader-Submitter B: *Yeah, okay.*

- 4.24 Panel Bank 2's three month JPY LIBOR submission was 0.64 that day, down from 0.65 on the previous day. This resulted in Panel Bank 2 moving to equal seventh in the ranking of Panel Banks, from fourth the previous day.
- 4.25 Broker A also approached Panel Bank 3 but because Panel Bank 3 was not his client he did so through Broker C, who worked on the Arbitrage Desk and for whom Panel Bank 3 was a client.
- 4.26 Broker A asked Broker C for: *"a favour...we've got a ****ing huge deal but on the back of it he's asked me to do him a favour and see if I can have a word with a couple of people, see if LIBOR, see if I could get it down a pip."*
- 4.27 Broker C later spoke with Trader-Submitter C, the JPY LIBOR submitter at Panel Bank 3 to request that he lower Panel Bank 3's JPY LIBOR submission by one basis point from that of the preceding day.
- 4.28 Later that day, Broker C expressed concern in a telephone call with Broker A about the conduct: *"If I set out on a line...it's the old auditors as well"*. Broker A advised Broker C: *"don't push it, no don't ever push it."* The language in the call clearly illustrates that Broker A was aware that his conduct, and that of his colleague on his behalf, was inappropriate.
- 4.29 Panel Bank 3's three month JPY LIBOR submission was 0.67 that day, down from 0.68 on the previous day. This submission was third in the overall ranking of the Panel Banks, the same as the previous day.
- 4.30 That day, Broker A also spoke with Trader-Submitter D, the JPY LIBOR submitter at Panel Bank 5. Broker A appears to have fabricated a story as a way to persuade Trader-Submitter D to assist him:

Broker A: *I need a favour.*

Trader-Submitter D: *Yes.*

Broker A: *...Alright, it's got [UNCLEAR] really, what it is, basically I got stuffed in something earlier in an IRS and it would have cost me about 40,000 to get out of it, yes. Geezer dug me out, as a favour back to him he's asked me, for one day today, he's got a couple of fixings coming. He wants to see if he can get LIBORs down a little bit. I've said I'll try and do what I can. Is there any way you might be able to set them a little bit lower today just to return the favour? It was a ****ing big, big, big giant stuffing that I got out of there.*

Trader-Submitter D: *Yeah, well cash is a little bit easier, isn't it so I'll...*

Broker A: *Yes, if you could get them down a couple of tickpips or something today that would be ****ing, like the out of 3s...*

Trader-Submitter D: *Yes, I mean, that's, you know, it's because cash is easier.*

Broker A: *Yes, it is easier so... yes, I mean if you could do that for me mate that would be a personal favour to you. At least it shows that I've tried to do my best for him, do you know what I mean?*

Trader-Submitter D: *Yes, yes, but yes cash is easier so I'll fix a couple up.*

Broker A: *I love you for that, thanks very much mate. I appreciate it, ta.*

4.31 Panel Bank 5's three month JPY LIBOR submission was 0.58 that day, down from 0.6 on the previous day. This submission was fifteenth in the ranking of Panel Banks, the same as the previous day.

4.32 The Brokers who participated in these exchanges understood that Trader A was attempting to manipulate the final published JPY LIBOR rate in order to improve the profitability of his Trading Positions.

Misleading Run-Throughs

4.33 Broker A also attempted to influence JPY LIBOR submitters by providing misleading Run-Throughs. They were misleading because they did not reflect his independent assessment of the market but instead took into account JPY LIBOR levels requested by Trader A.

4.34 For example, on 18 July 2008 Trader A was concerned that other Panel Banks were setting the one month JPY LIBOR rate higher than he would like. He told Broker A that he needed assistance to move it to a lower rate. Specifically, Trader A was concerned that Panel Bank 1 had "*moved up to 71*" and he told Broker A that he would "*need it lower*". Trader A added: "*I am losing so much cash...then I can't pay you*".

4.35 Later that morning, Broker A spoke with Trader-Submitter D, the JPY LIBOR submitter at Panel Bank 5. Trader-Submitter D requested a Run-Through from Broker A. Broker A responded: "*Oh, yeah yeah, while you're here. Okay, one month for the month is going to be 60*".

4.36 The published one month JPY LIBOR rate on 17 July 2008 was 0.65. Broker A therefore suggested that the rate was going to be 5 basis points lower on 18 July. In fact, the published JPY LIBOR rate for one month on 18 July was 0.645, a half basis point lower. The rate that Broker A suggested to Trader-Submitter D therefore reflected Trader A's request, rather than a being a proper assessment of where the rate would actually set on the day.

4.37 In accordance with Broker A's Run-Through, Panel Bank 5's one month JPY LIBOR submission was 0.6 that day. Another example occurred on 31 October 2008, in an exchange between Trader A and Broker A:

Trader A: *Right, okay. Listen what I need – this is what I need, I need 1's to come off the most because if they are off 20 for 1's which is what they [unclear].*

Broker A: *Right, yes. That's the one that's ****ing up at the moment as well, isn't it, so you need definitely.*

Trader A: *Yes and then say 3's are – I don't need it to come off quite so much, like, I don't know down 13 or something.*

Broker A: *Right.*

Trader A: *And then 6's go well, you know, there's still term and you can't get hold of it so say, like, down 8 or something.*

Broker A: *Right, okay.*

Trader A: *See what I mean.*

Broker A: [UNCLEAR].

Trader A: *Alright mate, if you could sort this out for me, if you can get 1's down - if you could get like a staggered downward move like that then we'll do a ****ing massive ticket next week.*

- 4.38 Shortly after, Broker A told another client that: *"I'm calling LIBORs down maybe about 17, 18 points in 1s, 3s around 12, 6s around 8."*
- 4.39 A suggested drop of 18 basis points in the one month JPY LIBOR submission rate was extraordinary and unprecedented. An analysis of the daily submission rates for the previous year reveals that the mean average daily movement in one month JPY LIBOR was merely 0.9 basis points. The largest daily rate move in the same period was 8.1 basis points.
- 4.40 The client asked him to repeat himself because the Run-Through was so unrealistically low. Broker A justified his suggested LIBOR rates by explaining: *"I don't know so much at the moment because I don't have any prices in anything but I'd say 1s are probably going to be down, obviously sort of, about 17, 18, 17 points say, 3s about 12 and 6s about 8. Sounds about sensible, I think."*
- 4.41 Broker A's Run-Through did not reflect his independent assessment of the market but instead took account of Trader A's request.
- 4.42 Also on 31 October 2008, Trader-Submitter E, the JPY LIBOR submitter at Panel Bank 4, asked for a LIBOR Run-Through from Broker D on the Arbitrage Desk. Broker D requested this information from Broker A. In response Broker A suggested, as part of his Run-Through, the following JPY LIBOR submissions; one month JPY LIBOR 18 basis points lower, three month JPY LIBOR 13 basis points lower and six month JPY LIBOR 9.5 basis points lower.
- 4.43 Broker D then communicated these suggested rates to Trader-Submitter E. Trader-Submitter E questioned these levels and told Broker D that he would check elsewhere. Trader-Submitter E called Broker D back and told him that the suggested levels were much too low, and that they should only be about three to five basis points lower across all maturities.

- 4.44 On 30 October 2008, the published rates for JPY LIBOR in the one, three and six month tenor were 0.91, 0.98 and 1.065 respectively. The published rates for 31 October were 0.85, 0.94 and 1.03 respectively. This means the actual drop in rates was 5.5, 4 and 3.5 basis points. In response to Trader A's requests, using its Run-Throughs, Martins had tried to influence Panel Banks to make JPY LIBOR submissions that were far below what they should have been.
- 4.45 On occasion, certain fixing dates would have a greater significance for Trader A, and Trader A would remind Broker A that he needed Broker A's assistance. As explained at paragraph 78 of the UBS Final Notice, 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.
- 4.46 For this reason and as explained at paragraph 80 of the UBS Final Notice, between 23 and 29 June 2009, Trader A made at least 21 requests to four brokers, including Broker A and others not employed by Martins seeking their assistance in influencing the JPY LIBOR submissions of Panel Banks.
- 4.47 During this six day period, Trader A had numerous conversations with Broker A during which they discussed the importance, for Trader A's positions, of a high six month JPY LIBOR rate on 29 June 2009.
- 4.48 For example, on 25 June 2009 Trader A told Broker A: "*remember 6m on Monday [29 June] is a huge huge priority*". On 29 June 2009, Trader A reminded Broker A that he wanted the six month JPY LIBOR rate to increase and told him: "*do your best and I'll sort u out...*"
- 4.49 In the days leading up to 29 June 2009 and on the day itself, Broker A contacted a number of submitters at Panel Banks with a view to influencing them to increase their six month JPY LIBOR submissions.
- 4.50 For example, on the morning of 29 June 2009, Broker A spoke to Trader-Submitter F, the alternative JPY LIBOR submitter at Panel Bank 5. During his LIBOR Run-Through, Broker A suggested 0.75 for the six month published JPY LIBOR rate. This would have represented a rise of 6.1 basis points on the previous days' equivalent rate.
- 4.51 On 28 June 2009, the published rate for six month JPY LIBOR was 0.68875, which rose to 0.69625 on 29 June 2009, a rise of only 0.75 basis points.
- 4.52 However, notwithstanding the unrealistic nature of Broker's A Run-Through, on 29 June 2009, Panel Bank 5's six month JPY LIBOR submission was 0.75, in line with Broker A's Run-Through.

Spoof orders

- 4.53 Broker A created false (or "spoof") orders. This involved calling out prices over a conference-style telephone called the "squawk box" to suggest a potential trade when there was none, such that the conversation could be heard by clients, including Panel Banks.
- 4.54 Broker A thereby represented that he had genuine interest from bank clients to trade cash at a particular level. He did this by shouting cash prices over the squawk box indicating prices had moved in a particular direction. The direction chosen took account of Trader A's request to move JPY LIBOR rates to benefit Trader A's positions.

- 4.55 By doing so, Broker A attempted to mislead market participants about the prices at which cash was trading and with the intention that JPY LIBOR submitters would move their submissions accordingly.
- 4.56 For example, on 3 September 2008 Trader A explained to Broker A that: "*3s is the big one for me mates...I'm getting ****ed on the 3s.*"
- 4.57 Trader A suggested that Panel Bank 5's three month JPY LIBOR submission could be moved down to 0.88. Broker A explained that he would: "*flood [Trader-Submitter D] with offers today*" and stated that: "*he does tend to set them where I offer them.*" Immediately, Broker A called out an offer to Trader-Submitter D at Panel Bank 5 over the squawk box stating that "*88, at the minute, I'm giving 3s, [Trader-Submitter D]*".
- 4.58 Later on, Trader A asked Broker A if he was putting offers around in 3s. Broker A told him that: "*I'm offering 3s at 88 where it ain't offered virtually. I'm offered only at 91.*" Trader A asked whether that is: "*to [Panel Bank 5] and [Bank C]?*"
- 4.59 Within seconds of the end of this call with Trader A, Broker A again shouted over the squawk box to Trader-Submitter D that: "*I got choice here 3s Yen [Trader-Submitter D], 88 either way.*"
- 4.60 In line with Broker A's "spoofer-order" Panel Bank 5's three month JPY LIBOR submission for 3 September 2008 was 0.88.
- 4.61 Broker A conducted "spoofer-orders" in an attempt to influence Panel Banks' views of the cash market so that they would make JPY LIBOR submissions at levels that benefitted Trader A.

Brokers motivated by revenue

- 4.62 The Brokers assisted Trader A because UBS was a significant client who accounted for a substantial proportion of the revenue of the JPY Desk at Martins. During the Relevant Period, UBS was the JPY Desk's second largest client and represented nearly 9% of its total commission revenue. On occasion, Trader A accounted for over 25% of the monthly commissions generated by Broker A.

Wash trades used to facilitate corrupt brokerage payments

- 4.63 Between 19 September 2008 and 25 August 2009, Broker A booked nine wash trades between Trader A, another UBS Trader and other clients of the JPY Desk. This was to facilitate corrupt brokerage payments between UBS and Martins as a reward for Brokers' efforts to influence the JPY LIBOR submissions of Panel Banks. These wash trades generated illicit fees of £258,151.09 for Martins.
- 4.64 For example, on 18 September 2008 Trader A explained to Broker A: "*if you keep 6s [i.e. the six month JPY LIBOR rate] unchanged today ... I will ****ing 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.*"
- 4.65 Trader A made it clear to Broker A that the wash trade was in return for Broker A assisting him to keep the six month JPY LIBOR rate down, and told him: "*if 6s go up a load, mate I can't afford to do it...but if that...if that happens it's a 62,000 buck trade for you.*"

- 4.66 Later that day, Broker A contacted Trader-Submitter G at Panel Bank 6 to request that he submit a low six month JPY LIBOR: *"I tell you what, if you could get 6s a little lower today, I've got, um, someone that's going to do a huge trade with me today if the ... if the 6s don't go up too much. So if you ..."* Trader-Submitter G confirmed that he would try to assist.
- 4.67 On 19 September 2008, and in line with the previous day's discussions, Broker A booked two wash trades with Trader A. That day there were a number of communications between Trader A and Broker A.
- 4.68 Trader A stated: *"If you help me I'll help you."* Broker A explained to Trader A that: *"we get like a bonus out of it...I mean we're batting for ourselves at the moment so we get like 30 percent of the net...so it's good mate. Thanks very much."* Trader A explained that he would continue to use wash trades to pay extra commission to Martins to compensate Broker A for his assistance with Trader A's LIBOR requests but emphasised that: *"it's a two-way street...the main thing for me [is] as long as the LIBORs don't go too mad."*
- 4.69 Broker A told Trader A: *"we always fight your side but yesterday we did make a ****ing extra big effort, mate. Really did. I mean and we...we did sort of take the piss out of it a bit as well and it worked so it's ****ing good work...We had a word with a few people so it's happy days, mate."* Broker A further explained: *"I mean you can't, you can't always do that, like, because they, they just tell us to **** off but every once in a while we get away with doing it but obviously yesterday was a big one so it was worth doing."*
- 4.70 The facilitation of the wash trades usually involved a number of other Brokers. On occasion the Brokers asked their clients to participate in these trades in exchange for promises of entertainment. For example, on 26 March 2009 Broker E called Trader B at Panel Bank 4 and stated: *"All right listen. I need you mate. ... I need your money. I ... oh, you'll be looked after in Vegas. I promise you. It's only a month away. Is there any chance you'll be able to wash this switch through today?"*
- 4.71 Trader B agreed and Broker E replied: *"Okay, mate, listen. That's perfectly fine and, er, I won't ... it's not going to be ****ing every month occurrence. It's ... it's just like it's the end of our quarter now, so I won't pester you with that every month, no way, I appreciate what you're doing anyway, right? You'll be looked after, mate. Don't worry about that. All right. So, um, so do I just ... we'll do it today or tomorrow. I'll do it ... try and put it through today?"*

Collusion with other Traders

- 4.72 Even after Trader A left UBS in September 2009, Martins continued to help another trader at UBS attempt to manipulate JPY LIBOR. They did this because Trader A's trading book remained with UBS and was a source of potential business for Martins.
- 4.73 For example, on 2 December 2009, Trader C at UBS contacted Broker A to say: *"mate you think 3s can come lower by 1bp tonight?...i may get a bit hurt if not"*. Broker A indicated that he would attempt to assist by offering spoof orders to the market: *"I'll try and offer it out a bit ok"*.
- 4.74 Martins assisted Traders at other Panel Banks. For example, Trader B at Panel Bank 4 sought assistance from Martins to manipulate the other Panel Banks' JPY LIBOR submissions in order to benefit his own Trading Positions.

- 4.75 For example, on 26 June 2009 Trader B called Broker E and asked: "Has [Trader A] been asking you to put LIBORs up today?" Broker E replied: "He wants ones and threes a little bit lower and sixes probably about the same as where they are now. He wants them to stay the same." Trader B stated, "I want them lower...". Broker E replied, "Alright, well, alright, alright, we'll work on it."
- 4.76 Later that day, Broker E recounted his efforts to Trader B: "Alright okay, alright, no we've okay just confirming it. We've, so far we've spoke to [Panel Bank 6]. We've spoke to a couple of people so we'll see where they come in alright. We've spoke, basically... basically we spoke to [Panel Bank 6, Panel Bank 7, Panel Bank 5], who else did I speak to? [Panel Bank 8]. "There are a couple of other boys I spoke to but as a team we've basically said we want a bit lower so we'll see where they come in alright?"

Extent of Martins' involvement in JPY LIBOR manipulation

- 4.77 Whilst Broker A was the principal Broker who colluded with Trader A to attempt to manipulate the published JPY LIBOR rate, the collusion extended to other Brokers on the JPY and Arbitrage Desks. A number of these Brokers were Managers including Brokers C and D.
- 4.78 Several other JPY Desk Brokers who did not directly participate in the collusive conduct were nevertheless aware that Broker A received requests from Trader A to assist him in his attempts to influence the LIBOR submissions of other Panel Banks.
- 4.79 A number of the Brokers on the JPY Desk were also aware of the wash trades. They were aware that these trades were exceptionally large and served no legitimate commercial purpose for the counterparties.

Principle 5 – conclusion

- 4.80 During the Relevant Period, Trader A made at least 600 requests to Martins in an attempt to manipulate the published JPY LIBOR rate.
- 4.81 The majority of requests were made directly to Broker A but a small number were made to other Brokers on the JPY Desk.
- 4.82 Martins did not always accommodate Trader A's requests, typically when it believed that those requests were so unreasonable that no Panel Bank would follow such suggestions (and even making them would cost Martins its credibility). But Martins did sometimes accede to Trader A's requests. Particularly on dates where Trader A had large Trading Positions whose profitability would be determined by the published JPY LIBOR rate or when there was a promise of a wash trade with Trader A.
- 4.83 Martins' motivation for colluding with Trader A to manipulate the published JPY LIBOR rates was to secure additional revenue for the firm and thereby increased bonuses for its Brokers.

Principle 3 breaches: systems and controls failings

- 4.84 During the Relevant Period, Martins' risk management systems and controls were both inadequate and ineffective to enable the monitoring and oversight of its Brokers' activities.

Inadequate policies and practices

- 4.85 With the exception of a compliance manual introduced in February 2008, Martins demonstrated a near complete absence of basic policies and practices designed to meet regulatory standards; there was no compliance monitoring programme; there were no risk reviews to assess the adequacy of Martins' systems and controls and there was no staff training and competence programme in place.

Ineffective compliance function and poor compliance culture

- 4.86 The culture of Martins' business gave undue weight to revenue generation at the expense of promoting a culture of regulatory compliance. Martins' employees and Managers were incentivised to focus heavily on revenue and there were no incentives to reward for adherence to internal controls or to penalise for non-compliance.
- 4.87 Martins prioritised Broker retention, which made it reluctant to introduce Broker controls for fear that this would prompt them to move to competitor firms. The compliance department was discouraged from introducing initiatives that might affect Brokers. A staff member stated that the compliance department had: "*nothing to do with that front office*" and that any issue with Broker conduct was sorted out amongst the Brokers themselves.
- 4.88 Martins failed to recognise the risks associated with its brokerage activities including the risk that Brokers would collude with Traders. The compliance culture at Martins was complacent. Managers close to the broking business felt that: "*good common sense could apply and, as and when any issue arose, this would be raised with the appropriate people.*" This was an unacceptable approach to risk management.
- 4.89 Consequently, the compliance culture was exceptionally weak.

Limited training

- 4.90 Save for training on anti-money laundering in the latter part of the Relevant Period, Martins conducted no other staff compliance training during the Relevant Period. As a result, Brokers were generally unaware of their regulatory obligations.

Transaction Monitoring Systems & Management Information

- 4.91 During the Relevant Period, Martins failed to conduct any transaction monitoring. There was no regular monitoring of the components or drivers of revenue (interest rates, deal sizes, maturities).
- 4.92 There was no system in place to monitor for daily revenue spikes. Such fundamental checks almost certainly would have detected the wash trades that were integral to the LIBOR misconduct described above.
- 4.93 The wash trades would have been readily detectable because of their size. During the Relevant Period the average brokerage per trade for the JPY Desk was £490, whereas the commission for the wash trades ranged from about £6,000 to almost £30,000. Other than to check for "fat-finger" entries, Martins did not have systems in place to identify exceptionally large trades.

- 4.94 The wash trades also caused very noticeable spikes in revenue for the JPY Desk. During the Relevant Period, the JPY Desk's average daily revenue was about £14,000. On days when wash trades were executed its revenue ranged from about £30,000 to just over £75,000. The majority of such days were in the upper part of this range and a number resulted in revenues making daily records for the JPY Desk.
- 4.95 Further, the nature of the wash trades should also have marked them out as unusual. The trades were executed on the same day, in the same amount, between the same counterparties and effectively cancelled each other out.
- 4.96 The wash trades were often executed on dates close to the calculation of desk revenue for bonus purposes.
- 4.97 Martins' failure to detect the wash trades was not due to an absence of systems. Martin's electronic monitoring system was capable of generating various reports which flagged large or unusual trades. In addition, it could also produce a daily report on desk revenue. But Martins failed to ensure that these daily desk reports were regularly produced and monitored.
- 4.98 Martins' senior Managers considered that they were close to the Brokers and well-informed about their trading activities. They were content to rely on anecdotal information about individual desks and to do without any formal trade monitoring on the basis that: *"experienced brokers knew what they were doing"* and because senior Managers kept: *"themselves briefed on what went on in the business by inter-acting with the brokers, for example socially after work"*.

Reporting lines

- 4.99 There was inadequate supervision and oversight by Managers of Brokers. Reporting lines were unclear. Managerial responsibilities were at best poorly defined, if they existed at all. Managers ran their Desks as they saw fit with no upward reporting obligation and no monitoring of their managerial performance. Instead, Martins thought it sufficient simply to monitor financial performance and were unconcerned with any other aspect of Desk or Broker performance.
- 4.100 Martins' lack of adequate systems, controls, supervision and monitoring throughout the Relevant Period meant that the widespread LIBOR misconduct went undetected and continued unabated throughout the Relevant Period.

Prior Compliance Reviews

- 4.101 Various weaknesses in Martins' systems and controls had been flagged in a compliance gap analysis completed by independent compliance consultants in 2005 and 2006. Martins was therefore aware of pre-existing weaknesses in its compliance framework but failed to take action to rectify these.

5. FAILINGS

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

Principle 5

- 5.2. During the Relevant Period, Martins acted improperly and breached Principle 5 by failing to observe proper standards of market conduct.

- 5.3. Its Brokers colluded with Trader A as part of a co-ordinated attempt to influence JPY LIBOR submissions made by Panel Banks, in an attempt to manipulate the final published JPY LIBOR rate.
- 5.4. In particular, on or around dates when the level of the final published JPY LIBOR rate was of particular significance to the profitability of Trader A's Trading Positions, Martins through its Brokers:
 - 5.4.1 requested that Panel Banks make specific JPY LIBOR submissions at levels that would benefit Trader A;
 - 5.4.2 provided misleading Run-Throughs to Panel Banks; and
 - 5.4.3 created spoof orders, with the aim of influencing Panel Banks' views of the cash market so that they would make JPY LIBOR submissions at levels that benefitted Trader A.
- 5.5. Martins assisted Trader A because he was a significant client who accounted for a substantial proportion of the revenue of the JPY Desk.
- 5.6. Martins also entered into wash trades with UBS, in order to facilitate corrupt brokerage payments to Martins as reward for its attempts to influence the JPY LIBOR submissions of Panel Banks.
- 5.7. Martins' misconduct created a significant and unacceptable risk that the published JPY LIBOR rates would be manipulated and the integrity of LIBOR would be impugned.

Principle 3

- 5.8. During the Relevant Period, Martins breached Principle 3 by failing to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems or effective controls in place to monitor and oversee its broking activity. In summary, Martins;
 - 5.8.1 had minimal policies and procedures in place to govern individual Brokers' behaviour;
 - 5.8.2 had no effective compliance function and a poor compliance culture;
 - 5.8.3 provided limited compliance training for Brokers;
 - 5.8.4 had no effective transaction monitoring; and
 - 5.8.5 had reporting lines and responsibilities which were unclear.
- 5.9. Martins' lack of adequate systems, controls, supervision and monitoring throughout the Relevant Period meant that the serious and widespread LIBOR misconduct went undetected and continued unabated throughout the Relevant Period.

6. SANCTION

- 6.1. The FCA's policy on the imposition of financial penalties and public censures is set out in DEPP. The detailed provisions of DEPP are set out in the Annex.

6.2 In determining the financial penalty, the FCA has had regard to this guidance. The FCA's current penalty regime applies to breaches that 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 FCA has also had regard to the provisions of ENF relevant to the pre-28 August 2007 part of the Relevant Period.

6.3 The FCA considers the following DEPP factors to be particularly important in assessing the sanction.

Deterrence - DEPP 6.5.2G(1)

6.4 The principal purpose of a financial penalty is to promote high standards of regulatory and 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 FCA considers that the need for deterrence means that a very significant fine on Martins is appropriate.

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

6.5 Martins' breaches were extremely serious. Martins' breaches took place consistently over several years and encompassed numerous incidents involving a number of Brokers and Managers on two separate Desks. Indeed, during the Relevant Period, it was an accepted practice on the JPY Desk to attempt to manipulate the published JPY LIBOR rate for the benefit of Trader A and UBS. In total, at least three individuals (including one Manager) on two desks participated in the attempts to manipulate LIBOR. A further individual was involved in facilitating the wash trades which were executed to compensate Martins for their efforts. The misconduct greatly magnified the impact of Trader A's efforts to manipulate JPY LIBOR by giving him the opportunity to influence a much larger number of Panel Banks than he could influence directly himself.

6.6 The misconduct included the deliberate dissemination of false suggestions of the appropriate JPY LIBOR rate to Panel Banks as part of a co-ordinated attempt to manipulate JPY LIBOR submissions made by Panel Banks.

6.7 There were also serious systemic weaknesses in Martins' systems and controls throughout the Relevant Period. It had no effective compliance function and a poor compliance culture. Martins was overly focussed on revenue and was complacent about the compliance risks it faced.

6.8 LIBOR is a benchmark reference rate in a number of relevant markets, including markets in over-the-counter and exchange-traded derivatives contracts. LIBOR also has a wider impact on other markets. The integrity of benchmark reference rates such as LIBOR is of fundamental importance both to UK and international financial markets. Martins' misconduct threatened the integrity of those benchmarks and confidence in, and the stability of, the UK financial system.

6.9 Martins could have caused serious harm to other market participants if the published LIBOR rates were affected by its actions on any given day. Indeed, by targeting a number of specific Panel Banks to influence their submissions, Martins was therefore more likely to have affected the overall published LIBOR rates than any individual Panel Bank or Trader acting on their own.

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

- 6.10 The FCA does not conclude that Martins (as a firm) engaged in deliberate misconduct. Nevertheless, the improper actions of a number of Brokers involved in the misconduct were deliberate and Martins was reckless in failing to ensure that its compliance culture and systems and controls were adequate to meet its regulatory obligations. Martins, because of a poor culture 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)

- 6.11 In deciding on the level of penalty, the FCA has had regard to the size and the financial resources of Martins.

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

- 6.12 Martins sought to influence Panel Banks' LIBOR submissions in order to assist one of its clients (UBS) and thereby secure additional revenue for itself. During the Relevant Period, Martins received from UBS approximately £177,654 in commission income for trades Martins facilitated for Trader A, and a further £258,151 in corrupt payments, by way of the wash trades, for assistance with the collusion.

Conduct following the breach - DEPP 6.5.2G(8)

- 6.13 In determining the appropriate level of penalty, the FCA considered the level of cooperation provided by Martins during the course of the FCA's investigation.
- 6.14 Martins cooperated with the investigation into its LIBOR misconduct. Importantly, Martins proactively provided information to the FCA regarding the wash trades which assisted this and other LIBOR investigations.
- 6.15 The FCA's investigation would have taken much longer to conclude without Martins' cooperative approach. In addition, Martins has made significant compliance improvements since the misconduct outlined in this Final Notice was detected. The FCA also notes that there have been significant staff and management changes at the firm.

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

- 6.16 On 25 September 2013, the FCA issued a final notice against ICAP with respect to the firm's collusion with Panel Banks in the attempted manipulation of LIBOR. The FCA has considered Martins' misconduct relative to ICAP's in determining the appropriate financial penalty.

Quantum of financial penalty

- 6.17 Taking into account all the factors listed above, in particular the relative seriousness of the conduct, as compared with ICAP and the size and financial resources of Martins as compared with ICAP, the FCA would have imposed a penalty of £3,600,000 on Martins. Given Martins' financial circumstances however, in particular, the fact that Martins would be unable to pay a penalty of this amount (together with the other regulatory liabilities that Martins faces in relation to LIBOR), the FCA has reduced the fine by 75% to £900,000 and has agreed to accept payment in instalments over three years.

7. PROCEDURAL MATTERS

Decision maker

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

7.2 This Final Notice is given under, and in accordance with section 390 of FSMA.

Manner of and time for Payment

7.3 The financial penalty is to be paid over a period of three years, as follows:

7.3.1 The first year, 2014 to 2015 - £105,000 is payable, divided into four equal payments of £26,250, falling due:

- a. Within 14 days of 15 May 2014;
- b. On or before 29 August 2014;
- c. On or before 29 December 2014; and
- d. On or before 29 April 2015.

7.3.2 The second year, 2015 to 2016 - £210,000 is payable, divided into four equal payments of £52,500, falling due:

- a. On or before 29 August 2015;
- b. On or before 29 December 2015;
- c. On or before 29 April 2016; and
- d. On or before 29 August 2016.

7.3.3 The third year, 2016 to 2017 - £315,000 is payable, divided into four equal payments of £78,750, falling due:

- a. On or before 29 December 2016;
- b. On or before 29 April 2017;
- c. On or before 29 August 2017; and
- d. On or before 29 December 2017.

If the financial penalty is not paid

7.4 If any instalment is not paid by the due date for that instalment then the remainder of the financial penalty becomes payable immediately and in full. The FCA may recover the outstanding amount as a debt owed by Martins and due to the FCA.

Publicity

7.5 Sections 391(4), 391(6) and 391(7) of FSMA apply to the publication of information about the matter to which this notice relates. Under those provisions, the FCA must publish such information about the matter to which this notice relates as the FCA considers appropriate. The information may be published in such manner as the FCA considers appropriate. However, the FCA may not publish information if such publication would, in the opinion of the FCA, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

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

FCA contacts

- 7.7 For more information concerning this matter generally, please contact Patrick Meaney (ex. 67420) or Maria O'Regan (ex. 67544) at the FCA.

Matthew Nunan

Project Sponsor

Financial Conduct Authority, Enforcement and Financial Crime Division