



Deutsche Bank, JPMorgan, UBS Are Charged With Fraud (Update2)

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By Elisa Martinuzzi and Sonia Sirletti

March 17 (Bloomberg) -- **Deutsche Bank AG**, JPMorgan Chase & Co., **UBS AG** and **Hypo Real Estate Holding AG**'s Depfa Bank Plc unit were charged with fraud linked to the sale of derivatives to the City of Milan.

Judge **Simone Luerti** scheduled the trial of the four firms, 11 bankers and two former city officials for May 6, Prosecutor **Alfredo Robledo** said after a hearing in Milan today. The banks allegedly misled the city over swaps that adjusted interest payments on 1.7 billion euros (\$2.3 billion) of bonds sold in 2005.

Prosecutors across Italy are investigating banks as local and national government agencies face potential losses of 2.5 billion euros on derivatives, lawyers say. The Milan probe may also affect cases as far away as the U.S., where securities firms have faced charges for price-fixing and bid-rigging in the sale of derivatives to municipalities, though not for fraud, according to former regulator Christopher "Kit" Taylor.

"This case could have repercussions over here if the trial showed deliberate intent," said Taylor, a former executive director of the Municipal Securities Rulemaking Board, the national regulator of the municipal-bond market. "What happened in Europe was the continuation of a pattern in the U.S."

JPMorgan is "vigorously" defending its position against the charges, the New York-based firm said in a statement. "The employees involved in the transactions acted with the highest degree of professionalism and entirely appropriately."

'No Criminal Plot'

UBS and "its exponents are confident that they will be able to demonstrate, in the course of the trial, that no criminal plot was conceived," the Zurich-based bank said in a separate statement.

Deutsche Bank believes it will be cleared of the charges and that its employees acted with integrity, according to a statement from the Frankfurt-based bank. Hypo Real Estate Holding said in a statement that neither Depfa Bank nor its employees "violated any law or regulation."

Giacomo Beretta, the City of Milan's current finance director, said in a statement that the municipality is "pleased about the speed at which the case is moving ahead, and the judiciary's attention to detail in the case."

Prosecutor Robledo alleges the London units of the four banks misled Milan on the economic advantage of a financing package that included the swaps and that they earned 101 million euros in hidden fees.

U.K. Rules

He also claims the banks violated U.K. securities rules by failing to inform Milan in writing that for the swap deal the city was a counterparty to the lenders rather than a customer. Banks abiding by the rules of the Financial Services Authority are required to shield customers from conflicts of interest and provide them with clear and fair information that isn't misleading.

Officials for the FSA in London didn't have an immediate comment.

The prosecutor, who seized assets from the banks equal to their share of the alleged profit, is claiming JPMorgan charged about 45 million euros in commissions that were hidden from the municipality, while Deutsche Bank made about 25 million euros, Depfa Bank earned 21 million euros and UBS made 10 million euros, court documents show.

"The thesis brought forward by the prosecutor was particularly innovative and aggressive," said **Giampiero Biancolella**, an attorney specializing in financial crime who isn't involved in the case. "The indictments prove the allegations are legitimate, though the charges don't yet prove the banks are guilty."

Apulia, Liguria Cases

In another Italian investigation, magistrates in the region of Apulia are probing Bank of America Corp. and last month requested the company be stopped from doing business with the country's municipalities for two years amid allegations it misled the municipality on derivatives linked to 870 million euros of bonds. A unit of Dexia SA is also under investigation in the same case.

Separately, **Nomura Holdings Inc.** bankers are under investigation for alleged fraud relating to derivatives contracts sold to the Italian region of Liguria in 2004, people familiar with the case said last month.

Derivatives are typically unregulated financial instruments linked to stocks, bonds, loans, currencies and commodities, or related to specific events such as changes in interest rates or the weather.

Bankers Charged

The individual bankers charged in the Milan case are: Deutsche Bank's **Tommaso Zibordi** and **Carlo Arosio**; Depfa's **Marco Santarcangelo** and **William Francis Marrone**; JPMorgan's **Antonia Creanza**, **Fulvio Molvetti**, **Simone Rondelli** and **Francesco Rossi Ferrini**; and UBS's **Gaetano Bassolino**, **Matteo Stassano** and Alessandro Foti.

Arosio, Bassolino, Stassano and Santarcangelo declined to comment. Zibordi, Rossi Ferrini, Rondelli, Creanza, Marrone and Foti didn't immediately return calls seeking comment. Molvetti couldn't be reached and his lawyer didn't return calls.

Giorgio Porta, a former interim director general of Milan's city government, and **Mario Mauri**, an external consultant, were also charged with fraud and collusion for their role in helping to oversee Milan's debt restructuring and derivatives.

The judge will have to clear Mauri because there aren't any material claims against him, his lawyer said. Porta's lawyer didn't immediately return calls.

The allegations have prompted Italian lawmakers to propose new rules restricting the use of derivatives among municipalities by boosting oversight and banning upfront payments. Italy's Senate Finance Committee on March 11 unanimously approved a proposal on tighter rules that will be used by the finance ministry to shape regulation.

'Paying the Bills'

"It's time banks start paying the bills," said senator **Elio Lannutti**, a member of the finance committee. The city was the injured party in this case, he said.

Through swaps, "banks found a way to sell something that is debt without making it look like debt," former regulator Taylor said. He advised a law firm that sued banks on behalf of residents of Jefferson County, Alabama, which was on the brink of bankruptcy after swaps backfired.

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Kit Taylor Interview on Milan Derivatives Case

March 17 (Bloomberg) -- Christopher "Kit" Taylor, former executive director of the Municipal Securities Rulemaking Board, talks with Bloomberg's Betty Liu about the charges facing Deutsche Bank AG, JPMorgan Chase & Co., UBS AG and Hypo Real Estate Holding AG's Depfa Bank Plc unit over fraud linked to the sale of derivatives to the city of Milan. The banks allegedly misled the city on swaps that adjusted interest payments on 1.7 billion euros (\$2.3 billion) of borrowings.



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