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## **Price-fixing suit names Goldman, 21 other primary Treasury dealers**

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By Editorial Staff    *Thu, Jul 30, 2015*

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*The suit by Boston's public employees' pension accuses traders at the 22 prominent firms of conspiring via Internet chatrooms and text messages to widen the spreads, or profit margins, on trades of government debt.*

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In a federal class-action lawsuit, Boston's public employees pension fund has accused 22 large financial institutions of using their privileged positions as primary dealers of U.S. government debt to manipulate the Treasury auction market and boost their own profits at investor's expense.

All of the institutions entrusted with underwriting and distributing Treasury debt—Bank of America's Merrill Lynch unit, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, UBS and 14 others—were named in the suit, which State-Boston Pension Fund filed July 23 in U.S. District Court, Southern District of New York.

The State-Boston Pension Fund manages \$5.4 billion for more than 20,000 active and more than 14,000 retired employees of all city departments and agencies as well as the School Department, the Boston Redevelopment Authority, the Boston Housing Authority, the Public Health Commission, and the Boston Water & Sewer Commission.

The suit was filed about a month after Bloomberg News reported that the U.S. Department of Justice (DOJ) was investigating possible misconduct in the \$12.7 trillion Treasury market, where primary dealers operate with little oversight and where tiny fluctuations in spreads represent millions of dollars gained or lost.

The plaintiffs linked the alleged manipulation with the similar manipulation of the benchmark LIBOR (London Interbank Order Rate) in 2012. The Treasury "conspiracy ultimately collapsed around the time DOJ secured a plea agreement from UBS Securities Japan Co. Ltd. in connection with its investigation of LIBOR in or around December 2012—a scandal involving similar manipulative conduct that would ultimately engulf several of the same Defendants, their parents, or affiliates," the State-Boston suit said.

The suit claims that traders at the 22 firms conspired via Internet chatrooms and text messages to widen their spreads, or profit margins, on trades of government debt. Primary dealers typically sell government securities "short" prior to a Treasury auction, and then cover their positions by buying debt instruments from the U.S. Treasury.

Sharing information on order flow before the auction, the suit said, the traders agreed to charge investors such as pension funds and other investors a slightly higher, “supra-competitive” price for Treasury bills, notes and bonds, then conspired to pay a slightly lower, less competitive price on their own purchases from Treasury.

Because the prices and yields that are set during the Treasury auction become the benchmarks for prices in related markets, the effects of the manipulation included mispricing of Treasury futures and options, the lawsuit said. The New York law firm of Labaton Sucharow represents the plaintiffs.

According to the suit:

Using “electronic methods of communication, Defendants’ Treasury securities traders employed a two-pronged scheme to maximize the spread between their short positions in the when-issued market and their acquisition costs of obtaining Treasury securities at Treasury Department auctions.

“First, Defendants’ traders agreed to artificially *inflate* the prices of Treasury securities in the when-issued market through coordination of bid-ask spreads. Defendants communicated with each other during the when-issued market to ensure that prices of when-issued Treasury securities would stay at supracompetitive levels.

However, because Defendants are primary dealers—and thus were required to bid at Treasury Department auctions—Defendants, individually and collectively, generally maintained short positions in the when-issued market. Defendants needed to be able to cover these positions profitably. Thus, they needed to fix the prices at which they bought Treasury securities from the Treasury Department.

And that’s exactly what Defendants did. Defendants coordinated their bidding strategies at the Treasury Department auctions to artificially *suppress* the prices they would pay for their bids. This had the effect of benefiting the short positions they maintained in the when-issued market by allowing Defendants to cover their positions with low-cost Treasury securities purchased at auction.

By artificially increasing the spread between prices of Treasury securities in the when-issued market and at auction, Defendants were able reap supracompetitive profits—essentially shorting (selling) Treasury securities artificially high in the when-issued market and then buying them at artificially low prices in the Treasury Department auction to cover their short positions.

Through Defendants' unlawful conduct, they were able to keep the spread between when-issued and auction prices at supracompetitive levels that would otherwise not have been possible in a competitive market."

The lawsuit seeks class-action status on behalf of investors in Treasury securities, including futures and options, from 2007 to 2012, and unspecified triple damages.

Reuters sought responses from the primary banks named in the suit but said it did not receive any.

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