



Holding Government Accountable for Getting Santa Clara County's Money Back from Wall Street

Background on LIBOR Fraud and Predatory Public Financing Deals:

LIBOR fraud is one of the largest financial scandals in history: Sixteen of the world's largest banks illegally manipulated an interest rate called LIBOR to enrich themselves. Up to \$800 trillion of investments are tied to LIBOR including those held by Santa Clara County and its pension funds which suffered losses when the LIBOR rate was fraudulently depressed. Banks have already admitted guilt, pleaded guilty to criminal charges, and agreed to pay more than \$2.5 billion in regulatory fines. Across the country, there are approximately two dozen individual and class action lawsuits filed by cities, counties, pension funds, and other public entities against the banks to recoup losses as a result of LIBOR fraud. In California, Santa Mateo County, San Diego County, the cities of Richmond and Riverside, and the East Bay Municipal Utility District are among those who have already taken action.

Wall Street fraud may have cost Santa Clara County millions: The County Treasury's Investment Review specifically states that the County "find[s] some floating rate securities attractive" and that "rates change quarterly and are pegged to LIBOR."ⁱ During the period of LIBOR manipulation, Santa Clara had between \$3.7 and \$4.2 billion in investments potentially tied to LIBOR.ⁱⁱ These included mortgage backed securities, municipal bonds, and commercial paper, among others. Estimated losses on these investments due to LIBOR could be as much as \$54 million.ⁱⁱⁱ

Ethically, legally, and financially, it's the County's responsibility to act: As our elected representatives, the County is entrusted with protecting Santa Clara's resources. Like other counties have, we should make every effort to investigate losses and recover all the money lost as a result of the fraudulent LIBOR rate manipulation and ensure that the banks responsible pay the County for the damages incurred by their egregious practices. That's why the County needs to aggressively and proactively investigate and recoup any losses as other cities are doing and call on other affiliated public entities to do the same. We need a transparent public process as well as a legal one to ensure full accountability.

LIBOR fraud is just tip of the iceberg: The LIBOR scandal is just the latest example in a long line of unethical and illegal practices by the largest banks. Every day we are learning of more ways in which the finance industry is ripping off cities and counties to unfairly lose millions of dollars annually, for example on interest rate swap deals and other predatory deals that exist here in Santa Clara County.

ⁱ County of Santa Clara Finance Agency, Controller-Treasurer Department, "County of Santa Clara Treasury Quarterly Investment Review as of December 31, 2010," p.7. This review occurred during the affected period of LIBOR manipulation. Previous reports are not available on the internet, but the data of investments suggests that LIBOR-based investments were held by the County throughout the period.

ⁱⁱ County of Santa Clara, California, Comprehensive Annual Financial Report for the years ended June 30, 2008 p. 51, 2009 p. 53, 2010 p. 53, 2011 p. 53, and 2012 p. 55.

ⁱⁱⁱ According to County Investment Officer, all variable rate debt in the county is tied to LIBOR. Investments with interest-rate risk are variable rate securities. Based on totals from the CAFR, we calculated LIBOR losses based on a manipulation spread that is widely used for the months of August 2007 through March 2010. For subsequent months we continued to use the 40 basis points which had remained constant since January 2009.