At UBS, It's the Culture That's Rogue

By JAMES B. STEWART

THE NEW YORK TIMES

September 24, 2011

When Kweku Adoboli was arrested for an illicit trading scheme that cost his employer, the global bank UBS, $2.3 billion in losses, he was instantly labeled a "rogue trader," suggesting he was an unprincipled scoundrel acting alone.

UBS moved swiftly to distance itself. Mr. Adoboli had engaged in "unauthorized" and "fictitious" trades that "violated UBS's risk limits," the bank claimed in a statement.

Mr. Adoboli remains in jail, his trading activities under investigation. UBS no doubt hopes they prove to be aberrational, an isolated instance of wrongdoing within the ranks of its approximately 65,000 employees worldwide. But the unauthorized trading is only the latest in a series of egregious ethical and legal lapses at UBS that have badly damaged the bank's once-sterling reputation. In this broader context, how aberrational were Mr. Adoboli's suspected lapses? Is the UBS culture at least partly to blame? And what if anything is UBS's board going to do?

Mr. Adoboli, 31, a soft-spoken native of Ghana, worked his way up from a back-office accounting function to UBS's vaunted Delta One derivatives trading desk. His circumstances bring to mind Société Générale's Jérôme Kerviel in France. Mr. Kerviel is serving a three-year prison sentence for his unauthorized trading, which cost the bank about $7 billion in losses.

Mr. Adoboli's lawyer told the court this week that he "is sorry beyond words for what has happened here. He went to UBS and told them what he had done and stands appalled at the scale of the consequences of his disastrous miscalculations."

Like Mr. Kerviel, whose trading bears a strong resemblance to that of Mr. Adoboli, there's no evidence that Mr. Adoboli stood to profit directly from his trading. Mr. Kerviel has steadfastly maintained he acted only for the benefit of the bank, pressured to distinguish himself by a rigid hierarchical culture in which he was the only trader from a working-class family who didn't attend one of France's prestigious grandes écoles. His superiors, he said, knew of and condoned his trading — as long as it was profitable.

Mr. Adoboli hasn't offered any such justifications, but his immigrant status may have set him apart at UBS. (The bank is investigating whether others at the bank bear any responsibility.) His unauthorized trading also seems consistent with a culture at UBS that stressed individual advancement over team efforts, according to former investment bankers. "The problem isn't the culture," one of them told me. "The problem is that there wasn't any culture. There are silos. Everyone is separate. People cut their own deals, and it's every man for himself. A lot of people made a lot of money that way, and it fueled jealousies and efforts to get ever better deals. People thought of themselves first, and then maybe the bank, if they thought about it at all."

Though UBS traces its roots to the mid-19th century, the modern bank is an amalgam of the former Union Bank of Switzerland; the Swiss Bank Corporation, (itself a combination of the Swiss bank and investment bank Warburg Dillon Read); the American investment bank PaineWebber; and a large team from the former Donaldson, Lufkin & Jenrette, all acquired since 1998. Critics as well as some members of the bank's current management say the firm never merged these disparate assets into one consistent culture, and that the headlong pursuit of growth at any cost trumped ethical and legal behavior, especially in the investment bank. (UBS didn't respond to requests for comment.)

The financial crisis and its aftermath have proved daunting for most of the world's banks, but in many ways UBS's behavior stands out. In August 2008, UBS settled charges brought by Andrew Cuomo, then the New York attorney general, that it misled customers when it sold them what it described as nearly risk-free auction-rate securities even as its executives knew the market was collapsing. After the market froze and investors were unable to sell the securities, regulators sued, and UBS agreed to repay $19.4 billion and pay a $150 million fine.

Other banks, too, agreed to reimburse clients stuck with illiquid securities, but what distinguished the UBS case was the allegation that top officials knew the market was collapsing and nonetheless moved to dump its inventory onto unsuspecting clients. E-mails from David Shulman, then global head of municipal securities for UBS, described the securities as an "albatross" and told the bank to "mobilize the troops," adding "the pressure is on to move inventory." Mr. Shulman even sold securities from his own personal account just before the market collapsed, later settling insider trading charges and agreeing to pay $2.75 million. "While thousands of UBS customers received no warning about the auction-rate securities market's serious distress, David Shulman — one of the company's top executives — used insider information to take the money and run," said Mr. Cuomo.

In May of this year, UBS agreed to pay $160 million and admitted that its employees had conspired to rig bids in the municipal bond derivatives market.

Then there was UBS's prominent role in recent notorious tax evasion cases by wealthy Americans. Again, UBS isn't the only Swiss bank to have helped its clients evade taxes under the cloak of secrecy, but it appears to have been the most aggressive — and remains the only one the Justice Department publicly threatened with criminal prosecution. In 2007, a former UBS private banker turned government informant disclosed a wide ranging effort by UBS's Europe-based wealth management operation to enroll wealthy Americans in secret Swiss accounts that would enable them to evade United States taxes. (UBS's wealth management Americas unit wasn't implicated in any wrongdoing.)UBS bankers fanned out to American polo tournaments, tennis competitions and celebrity events, trolling for rich clients susceptible to tax evasion. The informant himself accommodated a wealthy client by smuggling diamonds in a toothpaste tube, among the illegal acts he failed to reveal that ultimately landed him in jail. In 2009, the Justice Department contended that UBS had conspired to enable 17,000 wealthy Americans to engage in tax fraud and threatened criminal charges. In return for a deferred prosecution agreement, the bank agreed to pay a $781 million fine and divulge the names of account holders, effectively ending the historic tradition of Swiss bank secrecy and prompting a rush of United States taxpayers to confess to the I.R.S. The I.R.S. said this week that more than 30,000 taxpayers had come forward under an amnesty program.

UBS's headlong rush into the ill-fated mortgage-backed securities market before it collapsed in 2008 will go down as one of the worst blunders in banking history. UBS absorbed a staggering $38 billion in losses and had to be bailed out by the Swiss government. It now faces a wave of lawsuits, including one filed at the end of July by the Federal Housing Finance Agency seeking nearly $1 billion in damages, charging that UBS misrepresented the quality of the underlying mortgages. The agency has said it will sue other banks, too, but it chose UBS as its first case, again setting UBS apart.

This doesn't look like a sequence of rogue behaviors — it's a pattern.

Prosecutors say that Mr. Adoboli's scheme began in October 2008, just after the collapse of Lehman Brothers, and all of the purportedly unethical or criminal behavior occurred under the administration of UBS's former chief executives, Peter Wuffli, forced out in 2007, and his successor, Marcel Rohner, who resigned in 2009 after UBS reported the largest loss in Swiss corporate history. Oswald Grübel, a former co-chief executive of the rival Credit Suisse, emerged from retirement to assume the top job at UBS. He and his board and top managers were meeting in Singapore this week where, among other things, they were pondering the fate of the investment bank, the future of UBS — and Mr. Grübel's fate. (UBS didn't respond to requests for comment.)

The latest scandal may well cost Mr. Grübel his job, and in my view, Mr. Adoboli's scandal has handed the UBS board a catalyst for bold reforms. The problems at UBS aren't inadequate risk controls, which Mr. Adoboli brazenly circumvented, or a lack of regulations, which didn't stop other UBS executives from skirting the law. The problem the board faces is whether the UBS culture, to the extent it had one, was one of personal greed. UBS should ruthlessly and visibly weed out not just executives with dubious ethical and legal standards, but anyone who puts their personal interests ahead of clients — which, when you think about it, should be the litmus test for anyone who claims to be a professional.

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What do YOU think? Should the Board focus on better control systems, different culture, or both?

lstybel@boardoptions.com

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