



County of Santa Cruz

BOARD OF SUPERVISORS

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AGENDA: 6/9/15

June 2, 2015

BOARD OF SUPERVISORS
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Dear Members of the Board:

On Wednesday, May 20, 2015, the Department of Justice announced that four major banks--Citigroup, JP Morgan Chase, Barclays, and Royal Bank of Scotland--have agreed to plead guilty to felony charges of conspiring to manipulate the price of U.S. dollars and euros exchanged in the foreign currency exchange spot market. The banks have agreed to pay criminal fines totaling more than \$2.5 billion. In addition, a fifth bank, UBS, has agreed to plead guilty to manipulating the London Interbank Offered Rate (LIBOR) and other benchmark interest rates and pay a \$203 million criminal penalty after breaching its December 2012 non-prosecution agreement resolving the LIBOR investigation. The LIBOR affects consumer credit cards, student loans, home mortgages, and much more.

According to the Department of Justice, the conspiracy fixed the U.S. dollar-euro exchange rate, affecting currencies that are central to international commerce. This conspiracy undermined the integrity and the competitiveness of foreign currency exchange markets which account for hundreds of billions of dollars worth of transactions every day.

The behavior of these banks is offensive and signals a Wall Street culture in which several big banks broke the law even after years of strong criticism and increased regulation following the economic crisis. One trader is quoted as saying, "The less competition the better." A Barclay's Vice President was caught saying "If you ain't cheating you ain't trying."

This behavior is damaging to the public's faith in the integrity of our markets. When banks plead guilty to a crime, we must do more than look away and move on. The actions of these banks pose risks to investors and the public and I question whether these banks can be trusted with County funds.

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As you may recall, in August of 2012 then-Santa Cruz County Treasurer Fred Keeley announced that he was severing the County's financial ties to Barclays, the British bank that was featured in a scathing report by Britain's Treasury Select Committee regarding the manipulation of the LIBOR.

At that time, Treasurer Keeley removed Barclays from the County's "Authorized Dealer List," which meant the County treasury no longer used Barclays as a broker/dealer to coordinate the buying and selling of the County's investments. In November of 2011 Treasurer Keeley removed JP Morgan Chase and Bank of America from the same list for separate bid-rigging scandals.

The current County Auditor-Controller-Treasurer-Tax Collector, Mary Jo Walker, has continued her predecessor's practice. Ms. Walker said that her office could manage the County treasury pool under these recommended restrictions in our Investment Policy and she indicated that this particular limitation would not have an impact on the County's current investment strategy. The Treasurer operates under limited investment options available to governments in California to achieve the fundamental principles of public investing, which are safety, liquidity, availability, and yield. Ms. Walker also supports a sunset clause and found five years acceptable.

There seems to be no limit to the greed in some of our nation's largest banks. I believe it is critical that the County only work with the most trustworthy institutions as we invest and protect the public's tax dollars. Santa Cruz County should not be involved with those who rigged the world's biggest financial markets.

It is important that we send a message that if you want to do business with the County, you need to play by the rules. Therefore, I recommend that the Board direct that the County's investment policy be modified to reflect that the County of Santa Cruz will not do new business (either using investment services or buying commercial paper or bonds) with these felonious financial institutions for a period of five years and further that the County unwind existing relationships with these five banks to the greatest extent feasible.

Sincerely,



RYAN COONERTY, Supervisor
Third District

RC:lg

cc: Mary Jo Walker, Auditor-Controller-Treasurer-Tax Collector

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