UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

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In the Matter of:

The Royal Bank of Scotland plc,

Respondent.

CFTC Docket No. 17 – 08

ORDER INSTITUTING PROCEEDINGS PURSUANT TO SECTIONS 6(c) AND 6(d) OF THE COMMODITY EXCHANGE ACT, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS

I.

The Commodity Futures Trading Commission ("Commission") has reason to believe that The Royal Bank of Scotland plc ("Respondent," "RBS," or the "firm") has violated the Commodity Exchange Act (the "Act" or "CEA") and Commission Regulations ("Regulations"). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent engaged in the violations set forth herein, and to determine whether any order shall be issued imposing remedial sanctions.

II.

In anticipation of the institution of an administrative proceeding, Respondent has submitted an Offer of Settlement ("Offer"), which the Commission has determined to accept. Without admitting or denying the findings or conclusions herein, Respondent consents to the entry and acknowledges service of this Order Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions ("Order").[1]

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[1] Respondent consents to the entry of this Order and to the use of these findings in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party; provided, however, that Respondent does not consent to the use of the Offer, or the findings or conclusions in this Order, as the sole basis for any other proceeding brought by the Commission, other than in a proceeding in bankruptcy or to enforce the terms of this Order. Nor does Respondent consent to the use of the Offer or this Order, or the findings or conclusions in this Order consented to in the Offer, by any other party in any other proceeding.

III.

The Commission finds the following:

A. Summary

Beginning in January 2007 and continuing through March 2012 (the "Relevant Period"), RBS, by and through certain of its traders in Stamford, Connecticut, attempted to manipulate the U.S. Dollar International Swaps and Derivatives Association Fix ("USD ISDAFIX" or the "benchmark"), a leading global benchmark referenced in a range of interest rate products, to benefit RBS's derivatives positions in fixed income instruments, specifically in cash-settled options on interest rate swaps.

ISDAFIX rates and spreads were published daily and were meant to indicate the prevailing mid-market rate, at a specific time of day, for the fixed leg of a standard fixed-for-floating interest rate swap.[2] They were issued in several currencies. USD ISDAFIX rates and spreads were published for various maturities of U.S. Dollar-denominated swaps, including 1-year to 10-years, 15-years, 20-years, and 30-years. The most widely used USD ISDAFIX rates and spreads, and the ones at issue in this Order, were those that were intended to indicate the prevailing market rate as of 11:00 a.m. Eastern Time. The 11:00 a.m. USD ISDAFIX rate is used for cash settlement of options on interest rate swaps, or swaptions, and as a valuation tool for certain other interest rate products. For example, USD ISDAFIX was used during the Relevant Period in settlement of interest rate swap futures contracts traded on the Chicago Mercantile Exchange ("CME") and as a component in the calculation of various proprietary interest rate indices and structured products. At times, the USD ISDAFIX was used in the pricing of debt issuances.

During the Relevant Period, USD ISDAFIX was set each day in a process that began at exactly 11:00 a.m. Eastern Time with the capture and recording of swap rates and spreads from a U.S.-based unit of a leading interest rate swaps broking firm ("Swaps Broker"). Swaps Broker disseminated rates and spreads captured in this 11:00 a.m. "snapshot," "fix," or "print" – as it was referred to by traders and brokers – as references to a panel of banks and other financial institutions (collectively, "banks"). The banks then made submissions to Swaps Broker. Each bank's submission was supposed to reflect the midpoint of where that dealer would itself offer and bid a swap to a dealer of good credit as of 11:00 a.m. Eastern Time. Most banks on the panel usually submitted Swaps Broker's reference rates and spreads as captured in the 11:00 a.m. snapshot. As a result, after an averaging of the submissions, the reference rates and spreads became the published USD ISDAFIX almost every day.

On certain days on which RBS had a trading position settling or resetting against the USD ISDAFIX, RBS attempted to manipulate USD ISDAFIX rates through its trading at the 11:00 a.m. fixing. RBS traders bid, offered, and executed transactions in targeted interest rate

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[2] In 2014, the administration of ISDAFIX changed, and a new version of the benchmark is published under a different name by a new administrator using a different methodology.

products, including both swap spreads and U.S. treasuries, at the critical 11:00 a.m. fixing time with the intent to affect the reference rates and spreads captured by Swaps Broker in the "print" sent to submitting banks, and thereby to affect the published USD ISDAFIX. As captured in electronic communications and audio recordings, on some occasions when RBS had derivatives positions settling or pricing against USD ISDAFIX, its traders discussed both among themselves and with employees of Swaps Broker their intent to move USD ISDAFIX rates in whichever direction benefitted their positions, saying, for example, that "I'm going to have to get 10 [year ISDAFIX spreads] higher and 7 [year ISDAFIX spreads] lower." Furthermore, RBS's traders were aware they could impact the ISDAFIX rate. As one RBS trader ("Swaps Trader 1") bragged to another RBS swaps trader upon learning that RBS's profitability on a financing transaction would be determined in part by the USD ISDAFIX levels:

> ISDAFIX is like f**king, you know, it's job done now, you know . . . we'll have one guy working the treasuries . . . I'll be in the screens with [Swaps Broker employee ("Swaps Broker 1")] working the ISDAFIX screen . . . spreads . . . if we're sitting there hammering 12, 15s, 20s and stuff like that that's f**king easy.... We'll jack up all the spreads, hit the notes down, ISDAFIX prints.

This frank statement illustrates both of the two methods used by RBS to attempt to manipulate the ISDAFIX rate: swap spreads and U.S. Treasuries trading.

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In accepting RBS's Offer, the Commission recognizes the Respondent's cooperation during the Division of Enforcement's investigation of this matter, which helped the Division efficiently and effectively undertake its investigation.

B. Respondent

The Royal Bank of Scotland plc is a British banking and financial services company headquartered in the U.K. It has operations in over 40 countries and territories including the United States. It has been provisionally registered as a swaps dealer since December 31, 2012.

C. Facts

1. USD ISDAFIX Setting

ISDAFIX rates and spreads were benchmarks that indicate prevailing market rates for "plain-vanilla" interest rate swaps.[3] The 11:00 a.m. USD ISDAFIX was set during the Relevant

[3] The term "swap" is defined in CEA Section 1a(47). Here, a "plain-vanilla" interest rate swap is generally an ongoing exchange of fixed payments for floating payments, wherein one party to a swap pays a fixed rate on a set notional amount (the party who "pays fixed" is said to have "bought" the swap, or to be "long" the swap) and the other party pays a floating rate generally tied to three-month LIBOR (the party who "receives fixed" is said to have "sold" the swap, or to be "short" the swap). The "maturity" or "tenor" of a swap refers to the number of years over which counterparties exchange payments.

Period using a combination of swap spread trade data from Swaps Broker,[4] electronic trading in U.S. Treasuries and Eurodollars, and submissions from a panel of swap dealer banks, including RBS.

Swaps Broker's medium-term USD swap desk ("MTS Desk") functioned much like a traditional futures trading pit. Brokers on the desk sat (or stood) together and each serviced a number of major swap dealer banks, to whom they were connected throughout the trading day by direct phone lines and speaker boxes. The brokers communicated their clients' bids and offers by open outcry to the entire MTS Desk and all of the brokers simultaneously. Any client could accept a bid or offer. Once a broker confirmed that a client was "hitting" a bid, "lifting" an offer, or was otherwise "done" in a designated notional amount (either a minimum default amount or a greater amount), the trade between the counterparties was executed and the counterparties received a confirmation of the trade. RBS's interest rate swaps traders primarily worked with one broker on the MTS Desk, Swaps Broker 1, but at times also worked with other Swaps Broker employees, including brokers from Swaps Broker's short-term swap desk.

Swaps Broker published a live feed of transaction data for USD interest rate swap spreads, swap rates, and U.S. Treasury yields and prices to an electronic screen, known as the "19901 screen," accessible through a subscription-based market news service. The 19901 screen reflected the levels at which those products were trading through the MTS Desk (for swap spreads and swap rates) and Swaps Broker's proprietary electronic trading platform (for U.S. Treasury securities). The levels displayed on the 19901 screen for swap spreads were manually controlled by an employee of the Swaps Broker, known colloquially as the "screen guy" or "screen operator," who would toggle the levels up or down based on the swap spread trading activity that occurred before him on the MTS Desk. The 19901 screen is a reference used widely throughout the financial industry by swap dealer banks, hedge funds, asset managers, businesses, and other participants in interest rate markets. During the Relevant Period, levels displayed on the 19901 screen at precisely 11:00 a.m. were critical because they were used to set USD ISDAFIX.

To set USD ISDAFIX rates for the 2-year through 30-year maturities, Swaps Broker first generated reference rates and spreads from the snapshot of 11:00 a.m. 19901 screen prices, reflecting either the last traded spread or the mid-point between the most recent executable bid and offer. Swaps Broker's reference rates, for all maturities except the 1-year, were the sum of the reference spread and the 19901 screen's U.S. Treasury yield in the corresponding maturity. To generate the 1-year reference rate (for which there was no associated swap spread), Swaps Broker utilized a combination of Eurodollar futures yields (based on trading on CME's Globex platform) and broker "sentiment," which was intended to reflect prevailing rates for 1-year swaps based on trading though Swaps Broker's short-term swap desk.

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[4] An interest rate swap *spread* trade consists of a fixed-for-floating interest rate swap and an offsetting trade in U.S. Treasuries of the same maturity, which can be used to hedge part of the interest rate risk associated with the fixed-for-floating interest rate swap. The difference in basis points between the U.S. Treasury yield and the swap rate constitutes the "spread" quoted in a spread trade. The party who "receives fixed" in a swap and sells U.S. Treasuries to hedge is "short" spreads or has "sold" spreads, while a party who "pays fixed" in a swap and buys Treasuries to hedge is "long" spreads or has "bought" spreads.

Minutes after the 11:00 a.m. snapshot of the 19901 was taken, Swaps Broker distributed its reference rates and spreads to a panel of 14 or more contributing banks, which either accepted and submitted the reference rates and spreads as their own or submitted adjusted levels. Each bank was expected to submit "the mean of where that dealer would itself offer and bid a swap in the relevant maturity for a notional equivalent amount of USD $50 million or whatever amount is deemed market size in that currency for that maturity to an acknowledged dealer of good credit in the swap market."[5] In making their submissions, banks could change the prices for all rates and spreads across all maturities in their submissions; change any subset, including any single rate or spread; or change none at all and simply submit the reference rates and spreads. Alternatively, a panel bank could make no submission at all. After a quorum of contributing banks made their submissions, a calculation agent eliminated the highest and lowest submissions (known as "topping and tailing") and averaged the remaining submissions. The submission and calculation process was generally completed in the half hour following 11:00 a.m., after which the results were accessible to the public through a subscription-based news service.

In practice, most panel banks accepted Swaps Broker's reference rates and spreads as their default submissions. Thus, as traders at panel banks knew, after "topping and tailing," Swaps Broker's reference rates and spreads usually became the final published USD ISDAFIX benchmarks.

2. RBS's Interest Rate Products Trading Group

Through its Fixed Income Trading Group, RBS traded interest rate swaps, swap futures, swaptions, exotic interest-rate derivatives, U.S. Treasuries and a variety of other products. Within that trading group, RBS's U.S. Dollar Swap Desk in Stamford, Connecticut (the "Swap Desk") transacted and held, among other products, swaps, and swaps futures positions. Another desk within that trading group, RBS's U.S. Currency Options-Structuring Group (the "Options Desk"), transacted and held, among other products, swaption positions. The Swap Desk was located in close proximity to the Options Desk.

3. RBS's Positions with Exposure to USD ISDAFIX

Throughout the Relevant Period, RBS's Options Desk, in coordination with the Swap Desk, engaged in attempts to manipulate USD ISDAFIX for one primary reason: to maximize profit (or minimize loss) for the Options Desk by increasing their payments from counterparties, or decreasing payments to counterparties, in swaption cash settlements. A small movement of the benchmark higher or lower (*e.g.*, one basis point or less) could result in meaningful gain for RBS on its cash settlements. RBS traders' attempts to move USD ISDAFIX rates in a direction favorable to RBS's position, if successful, hurt the firm's counterparties to the cash settlements, as well as any other market participants who had positions referencing USD ISDAFIX on a given day that were directionally equivalent to RBS's counterparties' in the same maturity.

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[5] *See* ISDA, ISDAFIX, https://web.archive.org/web/20140209180148/http:/www2.isda.org/asset-classes/interest-rates-derivatives/isdafix/ (last accessed August 2, 2016).

The core Options Desk positions tied to the USD ISDAFIX were primarily so-called "European swaptions," one of the products traded by the Options Desk. A European swaption is an option to enter into a plain-vanilla fixed-for-floating interest rate swap, which must be exercised at 11:00 a.m. on a specified "expiry" date in the future at a pre-agreed fixed "strike" rate. A swaption can be exercised by "physical" delivery of the underlying swap, or by cash settlement in reference to a benchmark rate. Swaption cash settlements denominated in U.S. Dollars were typically calculated based on USD ISDAFIX rates according to a formula which measures the difference between the relevant USD ISDAFIX rate on the expiry date and the strike rate of the swaption. In any cash-settling swaption, the Options Desk's incentive to push the USD ISDAFIX higher or lower depended on (1) whether RBS was the owner (buyer) or seller of the swaption and (2) whether the swaption conferred the right to pay or receive the fixed rate in the underlying swap. The Options Desk also traded products consisting of combinations of swaptions, such as straddles, and other products for which cash settlements were similarly calculated based on the relevant USD ISDAFIX rate at expiry and therefore created similar incentives for RBS traders to attempt to push USD ISDAFIX rates in the bank's favor.

4. Means Employed in RBS's Attempts to Manipulate USD ISDAFIX

Given its financial incentives, RBS traders employed two different means to attempt to manipulate USD ISDAFIX rates—which targeted the two components of the Swaps Broker's reference rates—by trading in (1) swap spreads and (2) U.S. Treasuries rates. First, RBS traders would attempt to manipulate USD ISDAFIX by making or executing against bids or offers on swaps spreads through Swaps Broker, at and around the Swaps Broker's 11:00 a.m. print. Second, RBS traders would trade U.S. Treasuries through Swaps Broker's proprietary electronic platform—again at the time of Swaps Broker's 11:00 a.m. print. In both instances the traders traded in a manner designed to push USD ISDAFIX rates in a favorable direction.

RBS traders understood that by using swap spreads and/or treasury trading it was possible to move the USD ISDAFIX rate. As one RBS employee wrote "the way to move isdafix is to hit or lift spreads on the screen, and do the opposite in tsy, b/c that is how the rate is derived[*sic.*]."

Using each of these means, at times independently and at times in combination, RBS traders sought the same illicit goal: to move USD ISDAFIX in the direction that was best for RBS at the expense of its counterparties and clients.

a. Trading Swap Spreads to Affect the USD ISDAFIX

During the Relevant Period, RBS traders bid, offered, and/or traded swap spread trades at and around Swaps Broker's 11:00 a.m. print, in a manner designed to move USD ISDAFIX rates in a direction that would benefit the Bank.[6] RBS traders attempted to move Swap Brokers'

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[6] RBS traders referred to trades that they made around 11:00 a.m. for risk management purposes as hedging. When RBS's derivative products cash-settled, reset, or otherwise fixed to a benchmark, changes in the desks' risk positions could potentially cause traders to seek hedging trades, depending on a variety of factors, including the risk profile of other positions and whether the desk wanted to keep any resulting risk. Likewise, with internal ISDAFIX trades

reference rates and spreads by a quarter basis point or more with a single bid, offer, or trade of minimum market size (which varied by maturity) or with a series of bids, offers, or trades.

Recorded conversations and electronic communications show that RBS options traders would ask RBS swaps traders based in Stamford to move the swap spread prices in a particular direction. At various times during the relevant period, RBS option traders informed RBS swaps traders that, for example:

- One options trader wanted "10s as low as possible and 7s as high possible." The options trader had also noted that "I don't really need the spreads or anything" indicating that while he wanted to affect the USD ISDAFIX settings he did not have a need to buy the swap spreads.

- "For 11 a.m. I need to have bond spreads as low as possible and 5 year spreads as high as possible." (In the parlance of swaps traders, "Bond spreads" refers to 30-year swap spreads.)

- "I have a cash settle in 7s, I have 400 7s, Okay, I need the 7s higher."

In order to effect these strategies RBS swaps traders would often tell their brokers at Swaps Broker the intent of their trading at 11:00 a.m. In these communications RBS swaps traders would state an intention to achieve a certain swap spread level at 11:00 a.m., or to move that level up or down, rather than a desire to buy or sell a specific amount of swap spreads. For example, at various times during the Relevant Period, RBS swaps traders told their primary broker at Swaps Broker:

- "I want to see if I can get them [10 years] up to ¼."
- "I'm going to have to get 10s higher and 7s lower."

Not only do these directional instructions show that the desire to move price levels was influencing RBS's trading, they also indicate that the traders were attempting to manipulate USD ISDAFIX. In order to "get 2s down" by trading, a trader must ***sell*** 2-year swap spreads ***lower*** than the current market mid-swap spread indicated on the 19901 screen. Likewise, "getting 10s higher" involves ***buying*** 10-year swap spreads ***higher*** than the current mid-swap spread indicated on the 19901 screen. In attempts to push the USD ISDAFIX higher or lower, RBS traders were willing, at times, to buy higher or sell lower than the market required, or traded at times when they otherwise would not have, because they expected to benefit their cash settlements to an extent that would likely exceed, but at least cover, any resulting trading losses incurred through such trading.

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between desks, the desk taking on new risk, depending on a variety of factors, might have a reason or desire to hedge. Irrespective of whether the RBS traders had an interest in hedging, the traders engaged in attempted manipulation when they placed bids and offers or executed trades around 11:00 a.m. with the improper intent to move the USD ISDAFIX rate in RBS's favor.

After conveying instructions about their intent, some RBS swaps traders would discuss with Swaps Broker 1 the particular strategy they would use at 11:00 a.m. in order to obtain their intended result. In these discussions, RBS swaps traders would typically identify RBS's target print, the amount that RBS was willing to spend to achieve that print (sometimes referred to as "ammo"[7]), whether RBS wanted to use less than the full amount of "ammo" if possible, and discuss with the broker when the broker should trade to optimize their chances of getting their desired screen result. Indeed, on one occasion in June 2008 Swaps Broker 1 stated that he and Swaps Trader 1 "looked like a couple of rookies" because Swaps Broker 1 was unsure of what Swaps Trader 1 wanted him to do, noting to the trader that "usually you and I have a conversation about what you want to do."

RBS traders and Swaps Broker 1 would sometimes discuss in detail their strategy for timing trades to move swap spread levels at 11:00 a.m. On one occasion, the broker advised that "I think you can get 7s down without trading." In one instance after Swaps Broker 1 stated that in order to move the price "we'll just try to get it timed right," Swaps Trader 1 asked if Swaps Broker 1 thought seven seconds before 11:00 a.m. would be the best timing. The broker responded that he thought it would be best to trade "before that" and they agreed to begin trading nine—rather than seven—seconds before 11:00 a.m.

RBS traders would use limited "ammo" and timing techniques to attempt to manipulate at the lowest cost possible, but because affecting USD ISDAFIX could be so valuable, traders were at times willing to incur unnecessary transaction costs to do so. For example, on a day in January 2007, Swaps Trader 1 asked Swaps Broker 1 if the RBS swap and options desks could trade with each other through Swaps Broker, rather than internally. Doing so would have incurred a commission to the broker, but, unlike an internal trade, by trading through Swaps Broker RBS could move swap spread levels in RBS's favor. Indeed, about a minute prior to this request—just minutes before 11:00 a.m.—Swaps Trader 1 had told Swaps Broker 1 the RBS traders' intent: "we are going to have some 11 o'clocks ... we're just going to hit some 2s down." Swaps Broker 1 informed Swaps Trader 1 that "We've never had a situation like that. I think you'd have a lot of people f**king screaming up in arms," stated that "if you want my opinion, I would say don't do it, because I think you'd find yourself with more people bitching and moaning about it," and said that he thought "we are going to have people f**king losing it on this one." RBS decided not to go forward with the trade.

Throughout the Relevant Period, in numerous examples like the ones detailed above, RBS swaps traders would implement their plans in the seconds before 11:00 a.m.; an RBS swaps trader would direct the broker to buy or sell; and audio recordings capture RBS traders instructing Swaps Broker employee to execute trades designed to affect USD ISDAFIX.

RBS's traders knew and openly acknowledged that they were attempting to manipulate the USD ISDAFIX. On July 25, 2007, the CFTC announced it was charging the hedge fund

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[7] For example on one occasion RBS Swaps Trader 1 informed Swaps Broker 1, after asking if "he could get 10s down more" that "I have enough ammunition, I can show a ¾ offer just for 50 anyway."

Amaranth with attempted manipulation of the price of natural gas futures.[8] That same day, an RBS swaps trader ("Swaps Trader 2"), converted a news story about the lawsuit into a prescient "joke" where RBS took the place of Amaranth as the manipulator sued by the government. Swaps Trader 2 emailed this "joke" to other RBS swaps traders and Swaps Broker employees:

> Amaranth tried to Manipulate Gas Prices, CFTC Says...
>
> [Swaps Trader 1] tried for manipulating ISDAFIX3 settlement . . . [Swaps Trader 1] is on a recorded line shouting, "GET THE NINES DOWN [Broker], GET THE NINES DOWN, NOW NOW NOW". RBS could not be reached for comment.

Not only does the email show Swaps Trader 2 understood that RBS engaged in unlawful attempts to manipulate USD ISDAFIX rates, the language attributed to Swaps Trader 1 resembles the type of language that particular trader sometimes used when trading at 11:00 a.m. As Swaps Trader 1 described his own conduct at 11:00 a.m. on a day he had tried to manipulate the USD ISDAFIX "You should have heard me, I was standing up, everybody's staring at me, I'm like . . . at the top of my lungs . . . move the f*cking screen . . . mine the bonds[9], mine the bonds, move the f*cking . . . screen."

RBS traders understood how their trading at 11:00 a.m. could have an adverse impact on their counterparties. In one taped call between another RBS swaps trader—and, during his tenure, the head of the swap desk—"Swaps Trader 3," and Swaps Broker 1, Swaps Broker 1 denigrated a trader at another bank who had had a "swing and a miss" at 11:00 a.m. and had been unsuccessful in an effort to move swap spread levels. Swaps Trader 3 and Swaps Broker 1 then simulated an interview in which the RBS trader described their attempts to manipulate the USD ISDAFIX to a prospective employer:

Swaps Trader 3:	Huh, Amateur . . . I'm kidding. I'm going to put that on my resume; really good at the 11 o'clocks
Both:	Laughing
Swaps Broker 1:	What are the 11 o'clocks? You know, we try and...we f*ck with it a little bit.
Swaps Trader 3:	Laughing
Swaps Broker 1:	We try and like take somebody's eyes out pretty much

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[8] CFTC Press Release 5359-07. "U.S. Commodity Futures Trading Commission Charges Hedge Fund Amaranth and its Former Head Energy Trader, Brian Hunter, With Attempted Manipulation of the Price of Natural Gas Futures" (July 25, 2007) *available at* http://www.cftc.gov/PressRoom/PressReleases/pr5359-07.

[9] "Mine the bonds" is a way a trader can indicate that they are buying—by saying mine—30-year swap spreads (referred to as bonds by swaps traders).

Swaps Trader 3: [Inaudible.]

Both: Laughing

Swaps Broker 1: You're hired

On another occasion an RBS options trader ("Option Trader 1") bragged to his supervisor—then a senior manager at the firm—that he had "had a big 11 am, we like tried to f*ck [bank counterparty] a little bit." On another occasion an RBS options trader ("Option Trader 2") sent an instant message to a colleague that the options desk had had a "big cash settle with [bank counterparty] . . . and we skrood [*sic.*] them bigtime...so I think [Options Trader 1] is scrambling to make himself look better . . . reputation and all that crap."

The potential impact of RBS's activities was not limited to banking counterparties; if RBS were successful in its attempts to influence USD ISDAFIX rates it would be to the detriment of its counterparty. Option Trader 2, in explaining the cash settlement to another RBS trader, noted that RBS did not "actually have that many interbank cash settles and when we do, on average we tend to do badly." However, he added that "with clients we do okay but they have no idea that it's off," referring to the fact that RBS's non-bank counterparties were unaware that RBS was attempting to move USD ISDAFIX settings to their detriment.

RBS traders also understood that trading with intent to affect the USD ISDAFIX could have an impact other market participants who relied on USD ISDAFIX rates. Swaps Trader 2 informed an RBS colleague that they should avoid transacting at 11:00 a.m. because "Options expirations happen right at 11 and we get lots of screen games from options players." However, as long as RBS was not the victim, Swaps Trader 2 did see an upside to "screen games": "awesome—love it when corporates get boned by the 11:00 screen games," he wrote to a non-RBS employee, when he learned that an upcoming corporate bond pricing—in which a corporate bond's price would be determined in part by swap spread prices—would take place "right at 11."

b. Trading U.S. Treasuries to Affect the USD ISDAFIX

During the Relevant Period, RBS traders also bid, offered, and/or executed trades in U.S. Treasuries on Swaps Broker's electronic bond trading platform (for 2-year through 30-year maturities) in attempts to increase or decrease Swaps Broker's reference rates and spreads and thereby to influence the final published USD ISDAFIX. As one RBS employee asked a junior options trader, in apparent reference to more senior options traders, "were they doing the treasury thing to get isdafix to move?"

RBS traders used different techniques in their attempts to affect the USD ISDAFIX through treasuries trading. One approach—detailed by Option Trader 2 in an instant message to a colleague—was to trade as few treasuries as possible to move the treasury screen at 11:00 a.m. so it reflected the more favorable of the bid and offered sides of the market at the exact moment of the USD ISDAFIX setting. Option Trader 2 wrote:

> Say we have 500 10s that we're long and they're cash settling, we'll try to buy as few as possible to get the offered side to print and hit the spread down too, that way you get the print on the right side and still get to keep the rest of the risk and get out better.

In the same way that RBS traders sought to use limited "ammo" to affect the 19901 spread print at the lowest cost, RBS traders sometimes limited the amount of its treasury trading at 11:00 a.m. to the amount necessary to obtain a particular price result—*i.e.*, "buy as few as possible to get the offered side to print," and thus buy some amount at the higher (offered) rate—and transact the remainder at another time, at lower rates.

On at least one occasion, when RBS traders sought an even greater impact on USD ISDAFIX than moving the treasury rates to the better of the bid or offer, they attempted to move the ISDAFIX by what they referred to as "trading through the stack." This technique used more "ammo," but as Swaps Trader 1 explained to another RBS trader when he instructed the trader to trade through the stack to affect bond prices, "[i]t should drill it right down."

Sometimes RBS traders combined strategies. In one telephonic discussion, RBS Swaps Traders 1 and 2 explained to Swaps Trader 3 how they had used a combination of trading through the stacks and repeated trading to influence treasury prices—and therefore the USD ISDAFIX—for a transaction linked to 11:00 a.m. USD ISDAFIX rates. On that day, RBS Swaps Traders 1 and 2 coordinated their treasury trading with two London-based Swaps Traders, "RBS Swaps Trader 4" and "RBS Swaps Trader 5." RBS Swaps Trader 1 began his explanation of the treasury trading by informing RBS Swaps Trader 3 that "we taught [Swaps Trader 4 and Swaps Trader 5] how to trade through the stack because there wasn't [sic] really enough of us to do it all, so we had to move [inaudible] the screens as well." (Moving the screens is a reference to moving swap spreads by trading through Swaps Broker.)

Swaps Trader 2 described the results of their efforts: "***We f*cking murdered it.***"

Swaps Trader 1 provided Swaps Trader 3 with a more detailed description of their trading that day. The traders had divided the amount they were willing to trade among three traders using multiple strategies. First, they allocated to Swaps Trader 2 half of the "delta"—in this context the amount they were planning to trade near 11:00 a.m.—which he then used over a roughly two minute period to attempt to influence the 30-year U.S. Treasury Rates. As Swaps Trader 1 stated:

> Basically what we had, we did, did is, we gave [Swaps Trader 2], [Swaps Trader 2] took half the delta. He was selling for about two minutes beforehand. [Swaps Trader2] did a great job, ***he was knocking the f*cking 30s down,*** he was selling 24s and 25s all the way down to 19 so we got it off at 19.

"Knocking" the prices of 30-year U.S. treasuries down would increase the yield on 30-year U.S. Treasuries, and would also increase the 30-year USD ISDAFIX rate.

Swaps Trader 1 then explained to Swaps Trader 3 that—in addition to having Swaps Trader 3 trading 30-year treasuries before 11:00 a.m.—they had also allocated a certain amount of trades to Swaps Trader 4 and Swaps Trader 5 for the express purpose of "trading through the stack" in the seconds before 11:00 a.m.:

> We should have done well, but the best part is, the way we set it up we gave [Swaps Trader 2] half the delta we gave [Swaps Trader 4] like 400s, 500 10s and [Swaps Trader 5] 200 bonds and we taught them how to trade through the stack, so all they did was sit

> back and let [Swaps Trader 2] hit the screens and then like three seconds beforehand we were like hit it and they just went down and traded through the stack with whatever they had for ammo in 10s and 30s...it printed down at 19 in bonds and 15 in 10s.

"Hitting"—selling—10- and 30-year U.S. Treasuries would increase the yield on those instruments' tenors, and would thus increase the 10 and 30-year USD ISDAFIX rates.[10] Thus, four different swaps traders were directly involved in an attempt to move multiple U.S. treasury rates up at 11:00 a.m. as part of an attempt to move the USD ISDAFIX.

IV.

LEGAL DISCUSSION

A. Jurisdiction

As set forth below, Sections 6(c), 6(d), and 9(a)(2) of the Act have long prohibited attempted manipulation of the prices of any commodity in interstate commerce or for future delivery on or subject to the rules of any registered entity. 7 U.S.C. §§ 9, 13b, 13(a)(2) (2006). An interest rate benchmark, such as USD ISDAFIX, is a commodity, *see* Sections 1a(9) and (19) of the Act, 7 U.S.C. §§ 1a(9), (19) (2012); *see also* 7 U.S.C. §§ 1a(4), (13) (2006), and therefore may be subject to illegal attempted manipulation, whatever the manipulative means may be.

Here, RBS's attempted manipulation is also proscribed by the Act for the separate reason that the conduct involved swaps executed or traded on a Swaps Broker desk that operated in practice as a "trading facility" under the Act, *see* 7 U.S.C. § 1a(34) (2006) (defining trading facility); 7 U.S.C. §§ 2(d)(1)(B), 2(g)(3) (2006) (limiting jurisdictional exclusions to agreements, contracts, or transactions not executed or traded on a trading facility).

Lastly, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), the Commission also has authority to initiate proceedings and impose sanctions for a broader range of manipulative conduct, including in connection with any swap. *See* Sections 6(c)(1), 6(c)(1)(A), 6(c)(3), 6(d), and 9(a)(2) of the Act, 7 U.S.C. §§ 9(1), 9(1)(A), 9(3), 13b, 13(a)(2) (2012), and Commission Regulations 180.1 and 180.2, 17 C.F.R. §§ 180.1, 180.2 (2015). The Relevant Period encompasses conduct that occurred after the passage and effective date of the Dodd-Frank Act.

B. Respondent Attempted to Manipulate USD ISDAFIX

Section 9(a)(2) of the Act makes it unlawful for "[a]ny person to manipulate or attempt to

[10] Affecting the treasury prices of the 10- and 30-year rates on Swaps Brokers' electronic trading platform would also have an impact on USD ISDAFIX rates other than the 10-and 30-year rates. The treasury yield component of USD ISDAFIX for a tenor for which there is not a corresponding U.S. Treasury bond was generated by calculating the yield based on other tenors for which there are treasury securities, or "interpolating" the yield. For example, the Treasury yield component of the 20-year USD ISDAFIX rate was generated by a calculation based upon the 10-year and 30-year US Treasury yields.

manipulate the price of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity." 7 U.S.C. § 13(a)(2) (2006). With respect to conduct on or after July 16, 2011, amended Section 9(a)(2) of the Act also makes it unlawful to manipulate or attempt to manipulate the price of "any swap." 7 U.S.C. § 13(a)(2) (2012).

For conduct before August 15, 2011, Sections 6(c) and 6(d) of the Act authorize the Commission to serve a complaint and provide for the imposition of, among other things, civil monetary penalties and cease and desist orders if the Commission "has reason to believe that any person . . . has manipulated or attempted to manipulate the market price of any commodity, in interstate commerce, or for future delivery on or subject to the rules of any registered entity, . . . or otherwise is violating or has violated any of the provisions of [the] Act." 7 U.S.C. § 9 (2006); *id.* § 13b (2006).

For conduct occurring on or after August 15, 2011, the Commission is authorized to serve a complaint and impose penalties and orders with regard to attempted manipulation in violation of the broader amended provisions of Sections 6(c)(1) and 6(c)(3) and the Commission regulations implementing those provisions. *See* Sections 6(c)(4)(A) and 6(d) of the Act, 7 U.S.C. §§ 9(4)(A), 13b (2012).

Sections 6(c)(1) and 6(c)(1)(A) of the Act prohibit the use or attempted use of any manipulative device, including false reporting, in connection with any swap or contract of sale of any commodity in interstate commerce, or for future delivery, 7 U.S.C. §§ 9(1), 9(1)(A) (2012), and Commission Regulation 180.1(a), 17 C.F.R. § 180.1(a) (2015), makes it "unlawful . . . , directly or indirectly, in connection with any swap, or contract of sale of any commodity in interstate commerce, or contract for future delivery on or subject to the rules of any registered entity, to intentionally or recklessly: (1) [u]se . . . or attempt to use . . . any manipulative device; (2) [m]ake, or attempt to make, any untrue or misleading statement of a material fact or to omit to state a material fact necessary in order to make the statements made not untrue or misleading; (3) [e]ngage, or attempt to engage, in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person; or, (4) [d]eliver or cause to be delivered, or attempt to deliver or cause to be delivered, for transmission through the mails or interstate commerce, . . . a false or misleading or inaccurate report concerning . . . market information or conditions that affect or tend to affect the price of any commodity in interstate commerce."

Section 6(c)(3) of the Act prohibits the attempted manipulation of the price of any commodity in interstate commerce, 7 U.S.C. § 9(3) (2012), and Commission Regulation 180.2, 17 C.F.R. § 180.2 (2015), makes it "unlawful . . . directly or indirectly, to . . . attempt to manipulate the price of any swap, or of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity."

To prove attempted manipulation under Sections 9(a)(2) and 6(c)(3) of the Act and Commission Regulation 180.2, the following two elements are required: (1) an intent to affect market price, and (2) an overt act in furtherance of that intent. *See In re Hohenberg Bros. Co.* [1975-77 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 20,271, at 21,477 (CFTC Feb. 18, 1977). To prove the intent element of attempted manipulation, the respondent must have "acted (or failed to act) with the purpose or conscious object of causing or effecting a price or price trend in the market that did not reflect the legitimate forces of supply and demand." *In re*

Indiana Farm Bureau Coop. Ass'n, [1982-1984 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 21,796, at 27,283 (CFTC Dec. 17, 1982). "[W]hile knowledge of relevant market conditions is probative of intent, it is not necessary to prove that the accused knew to any particular degree of certainty that his actions would create an artificial price. It is enough to present evidence from which it may reasonably be inferred that the accused 'consciously desire[d] that result, whatever the likelihood of that result happening from his conduct.'" *Id.* (quoting *United States v. U.S. Gypsum Co.*, 438 U.S. 442, 445 (1978)). A profit motive may also be evidence of intent, although profit motive is not a necessary element of an attempted manipulation. *See In re DiPlacido* [2007-2009 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 30,970, at 62,484 (CFTC Nov. 5, 2008) (citing *In re Hohenberg Bros. Co.*, [1975-1977 Transfer Binder] Comm. Fut. L. Rep. (CCH) at 21,478)), *aff'd sub. nom. DiPlacido v. CFTC*, 364 Fed. App'x 657 (2d Cir. 2009). It is also not necessary that there be an actual effect on price. *See CFTC v. Amaranth Advisors, L.L.C.*, 554 F. Supp. 2d 523, 533 (S.D.N.Y. 2008).

Respondent Attempted to Manipulate USD ISDAFIX Through Improper Trading Conduct

As evidenced by the communications among RBS traders and between RBS traders and their brokers, as well as their actual trading conduct, RBS traders specifically intended to manipulate USD ISDAFIX by placing bids or offers or executing trades in the moments leading into 11:00 a.m. designed in a manner, including timing and pricing, to increase or decrease swap spreads and/or U.S. Treasury Rates at 11:00 a.m., with the intent to affect levels reported on the 19901 screen and USD ISDAFIX fixings. Moreover, the evidence reflects that the traders intended such trading conduct to affect the fixings in order to benefit RBS's trading positions against the firm's counterparties.

The RBS traders' bids, offers, and executed trades in the moments leading into 11:00 a.m., which were intended to manipulate USD ISDAFIX, as well as the traders' communications with each other and with their Swaps Broker brokers to plan and execute this trading conduct, constituted overt acts in furtherance of their intent to manipulate USD ISDAFIX. The RBS traders thereby engaged in acts of attempted manipulation in violation of Sections 6(c), 6(d), and 9(a)(2) of the Act, 7 U.S.C. §§ 9, 13b, 13(a)(2) (2006). Additionally, with respect to conduct occurring on or after August 15, 2011, RBS engaged in acts of attempted manipulation in violation of Section 6(c)(3), 7 U.S.C. § 9(3) (2012), and Regulation 180.2, 17 C.F.R. § 180.2 (2015), and they used or attempted to use a manipulative device in violation of Sections 6(c)(1) and 6(c)(1)(A), 7 U.S.C. §§ 9(1), 9(1)(A) (2012), and Regulation 180.1(a), 17 C.F.R. § 180.1(a) (2015).

C. The Royal Bank of Scotland plc is Liable for the Acts of its Agents

Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B) (2012), and Regulation 1.2, 17 C.F.R. § 1.2 (2015), provide that "[t]he act, omission, or failure of any official, agent, or other person acting for any individual, association, partnership, corporation, or trust within the scope of his employment or office shall be deemed the act, omission, or failure of such individual, association, partnership, corporation, or trust." Pursuant to Section 2(a)(1)(B) of the Act and Commission Regulation 1.2, strict liability is imposed on principals for the actions of their agents. *See, e.g., Rosenthal & Co. v. CFTC*, 802 F.2d 963, 966 (7th Cir. 1986); *Dohmen-*

Ramirez & Wellington Advisory, Inc. v. CFTC, 837 F.2d 847, 857-58 (9th Cir. 1988); *CFTC v. Byrnes*, 58 F. Supp. 3d 319, 324 (S.D.N.Y. 2014).

The Royal Bank of Scotland plc is liable for the acts, omissions, and failures of any traders, managers, and submitters who acted as their employees and/or agents in the conduct described above. Accordingly, as set forth above, The Royal Bank of Scotland plc violated Sections 6(c), 6(d), and 9(a)(2) of the Act, 7 U.S.C. §§ 9, 13b, 13(a)(2) (2006); Sections 6(c)(1), 6(c)(1)(A), 6(c)(3), 6(d), and 9(a)(2), 7 U.S.C. §§ 9(1), 9(1)(A), 9(3), 13b, 13(a)(2) (2012); and Regulations 180.1(a) and 180.2, 17 C.F.R. §§ 180.1(a), 180.2 (2015).

V.

FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that Respondent attempted to manipulate prices in violation of Sections 6(c), 6(d), and 9(a)(2) of the Act, 7 U.S.C. §§ 9, 13b, 13(a)(2) (2006), and for conduct occurring on or after August 15, 2011, Sections 6(c)(1), 6(c)(1)(A), 6(c)(3), 6(d), and 9(a)(2), 7 U.S.C. §§ 9(1), 9(1)(A), 9(3), 13b, 13(a)(2) (2012), and Regulations 180.1(a) and 180.2, 17 C.F.R. §§ 180.1(a), 180.2 (2015).

VI.

OFFER OF SETTLEMENT

Respondent, without admitting or denying the findings or conclusions herein, have submitted the Offer in which it:

A. Acknowledges receipt of service of this Order;

B. Admits the jurisdiction of the Commission with respect to this Order only and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;

C. Waives:

1. the filing and service of a complaint and notice of hearing;
2. a hearing;
3. all post-hearing procedures;
4. judicial review by any court;
5. any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
6. any and all claims that they may possess under the Equal Access to Justice Act, 5 U.S.C. § 504 (2012) and 28 U.S.C. § 2412 (2012), and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the

Commission's Regulations, 17 C.F.R. §§ 148.1-30 (2015), relating to, or arising from, this proceeding;

7. any and all claims that they may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, §§ 201-253, 110 Stat. 847, 857-868 (1996), as amended by Pub. L. No. 110-28, § 8302, 121 Stat. 112, 204-205 (2007), relating to, or arising from, this proceeding; and

8. any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief;

D. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer; and

E. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:

1. makes findings by the Commission that Respondent attempted to manipulate prices in violation of Sections 6(c), 6(d), and 9(a)(2) of the Act, 7 U.S.C. §§ 9, 13b, 13(a)(2) (2006), and for conduct occurring on or after August 15, 2011, Sections 6(c)(1), 6(c)(1)(A), 6(c)(3), 6(d), and 9(a)(2), 7 U.S.C. §§ 9(1), 9(1)(A), 9(3), 13b, 13(a)(2) (2012), and Regulations 180.1(a) and 180.2, 17 C.F.R. §§ 180.1(a), 180.2 (2015);

2. orders Respondent to cease and desist from attempting to manipulate prices in violation of Sections 6(c)(1), 6(c)(1)(A), 6(c)(3), 6(d), and 9(a)(2) of the Act, 7 U.S.C. §§ 9(1), 9(1)(A), 9(3), 13b, 13(a)(2) (2012), and Commission Regulations 180.1(a) and 180.2, 17 C.F.R. §§ 180.1(a), 180.2 (2015);

3. orders Respondent to pay a civil monetary penalty in the amount of eighty five million US dollars ($85,000,000) plus post-judgment interest; and

4. orders Respondent and its successors and assigns to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VII of this Order.

F. Respondent represents that it has already undertaken certain steps intended to make reasonable efforts to ensure the integrity of any submission to, and trading in connection with, certain benchmarks to which RBS submits or submitted, including ISDAFIX and its successor benchmark (*see supra* footnote 2), including, but not limited to, the following:

1. Respondent has conducted a global review of risks, conflicts and best practices related to benchmarks, including the procedures, processes,

controls and supervision related to participation in benchmarks, including ISDAFIX;

2. Respondent enhanced policies, procedures and controls relating to participation in benchmarks, including ISDAFIX, as follows:

   a. Measures designed to enhance electronic communications surveillance, including measures designed to enhance the detection and deterrence of improper communications concerning benchmarks;

   b. Enhanced guidance relating to the identification and mitigation of potential conflicts of interest relating to Respondent's trading in products that affect the relevant benchmark;

   c. Implementation of recordkeeping of benchmark contributions and the methodologies for establishing contributions;

   d. Establishment of a benchmark-rate-setting working group comprising subject-matter experts across functions, including representatives from the first and second lines of defense, to discuss topics, best practices and potential areas of concern relating to benchmark contributions;

   e. Enhanced control framework and governance, including developing appropriate escalation procedures for both internal and external conduct relating to benchmarks, and mandating periodic review;

   f. Enhanced policies and procedures providing additional guidance regarding benchmark contributions;

   g. Enhanced supervision of personnel that make benchmark submissions;

   h. Enhanced routine training of all traders, supervisors and others who are involved in the fixing of any benchmark; and periodic audit of benchmark submissions;

3. Respondent enhanced policies, procedures and controls relating to market conduct and ethical standards, including conduct related to benchmarks and rate fixings, as follows:

   a. Measures designed to detect attempted manipulation and other improper conduct related to benchmark setting and submissions;

   b. Enhanced policies and procedures relating to ethical behavior, prohibited conduct and escalation,

c. Enhanced policies, procedures and controls relating to trading desk supervision;

d. Enhanced and routine training of all sales, trading and supervisory employees on ethical standards, escalation, and appropriate market conduct, including but not limited to market manipulation, attempted market manipulation and other such improper trading practices;

e. Enhanced routine training of all traders, supervisors and others who are involved in or rely on interest rate benchmark fixings;

f. Annual attestations by trading supervisors and employees regarding compliance with established policies and ethical standards;

G. Further, Respondent has been developing and will implement further enhancements to its controls surrounding its participation in benchmarks (including interest-rate swap benchmarks), and such remediation enhancements will include:

1. Enhanced policies and procedures providing guidance on benchmark fixings and market conduct related thereto, including prohibition on actual or attempted manipulation of interest-rate swap benchmark fixings;

2. Enhanced routine training and guidance to sales and trading personnel and supervisors who are involved in interest rate benchmark fixings or trading of any product that references a benchmark based on interest rate swaps, including guidance relating to the trading of any product that references a benchmark based on interest rate swaps;

3. Enhanced electronic and audio communications surveillance including measures reasonably designed to enhance the detection and deterrence of improper communications concerning attempted manipulation of interest rate swap benchmark fixings to benefit expiries; and

4. Development of additional trading and market surveillance, designed to detect potential manipulation of benchmarks.

Upon consideration, the Commission has determined to accept the Offer.

VII.

<u>ORDER</u>

Accordingly, IT IS HEREBY ORDERED THAT:

A. Respondent shall cease and desist from attempting to manipulate prices in violation of Sections 6(c)(1), 6(c)(1)(A), 6(c)(3), 6(d), and 9(a)(2) of the Act, 7 U.S.C. §§ 9(1), 9(1)(A), 9(3), 13b, 13(a)(2) (2012), and Commission Regulations 180.1(a) and 180.2, 17 C.F.R. §§ 180.1(a), 180.2 (2015).

B. Respondent shall pay a civil monetary penalty of eighty five million U.S. dollars ($85,000,000), within ten (10) days of the date of entry of this Order (the "CMP Obligation"). If the CMP Obligation is not paid in full within ten (10) days of the date of entry of this Order, then post-judgment interest shall accrue on the CMP Obligation beginning on the date of entry of this Order and shall be determined by using the Treasury Bill rate prevailing on the date of entry of this Order pursuant to 28 U.S.C. § 1961 (2012). Respondent shall pay the CMP Obligation by electronic funds transfer, U.S. postal money order, certified check, bank cashier's check, or bank money order. If payment is to be made other than by electronic funds transfer, then the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

Commodity Futures Trading Commission
Division of Enforcement
ATTN: Accounts Receivables --- AMZ 340
E-mail Box: 9-AMC-AMZ-AR-CFTC
DOT/FAA/MMAC
6500 S. MacArthur Blvd.
Oklahoma City, OK 73169
Telephone: (405) 954-7262

If payment is to be made by electronic funds transfer, Respondent shall contact Nikki Gibson or her successor at the above address to receive payment instructions and shall fully comply with those instructions. Respondent shall accompany payment of the CMP Obligation with a cover letter that identifies the Respondent and the name and docket number of this proceeding. The Respondent shall simultaneously transmit copies of the cover letter and the form of payment to the Chief Financial Officer, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581.

C. Respondent and its successors and assigns shall comply with the following undertakings set forth in the Offer:

1. **REMEDIATION**

As set forth above in Section VI, paragraph F, Respondent represents that it has already undertaken and continues to undertake extensive remedial measures to implement and strengthen its internal controls and procedures relating to the fixing of interest-rate swaps benchmarks and related supervision of its USD interest rate swaps, options, and exotics desks. With respect to its remediation efforts related to those desks, to the extent not already undertaken, Respondent undertakes that:

a. Respondent will implement and improve its internal controls and procedures in a manner reasonably designed to ensure the integrity of its participation in the fixing of any interest-rate swap benchmark, including measures to identify and address internal or external conflicts of interest;

b. Respondent's remediation improvements will include internal controls and procedures relating to:

1. measures designed to enhance the detection and deterrence of improper communications concerning interest-rate swap benchmarks;

2. monitoring systems designed to enhance the detection and deterrence of trading or other conduct potentially intended to manipulate directly or indirectly swap rates, including benchmarks based on interest-rate swaps;

3. periodic audits, at least annually, of Respondent's participation in the fixing of any benchmark based on interest-rate swaps;

4. supervision of trading desk conduct that relates to any interest-rate swap benchmark;

5. routine and on-going training of all trading desk personnel relating to the trading of any product that references a benchmark based on interest-rate swaps;

6. processes for the periodic but routine review of written and oral communications of any traders, supervisors and others who are involved in trading related to any benchmark based on interest-rate swaps with the review being documented and documentation being maintained for a period of three years; and

7. continuing to implement a system for reporting, handling and investigating any suspected misconduct or questionable, unusual or unlawful trading activity relating to the fixing of any benchmark based on interest-rate swaps with escalation to compliance and legal, and with reporting of material matters to the executive management of RBS and the Commission, as appropriate; the Respondent shall maintain the record basis of the handling of each such matter for a period of three years.

c. Within 120 days of the entry of this Order, the Respondent shall make a report to the Commission, through the Division, concerning its remediation efforts prior to and since the entry of this Order. Within 365 days of the entry of this Order, the Respondent shall submit a report to the Commission, through the Division, explaining how it has complied with the undertakings set forth herein. The report shall contain a certification from a representative of the Respondent's Executive Management, after consultation with the Respondent's chief compliance officer(s), that the Respondent has complied with the undertakings set forth above, and that it has established policies, procedures, and controls to satisfy the undertakings set forth in the Order.

2. **COOPERATION WITH THE COMMISSION**

In this action, and in any investigation or other action instituted by the Commission related to the subject matter of this action, Respondent shall cooperate fully and expeditiously with the Commission, including the Division. As part of such cooperation, Respondent agrees to the following for a period of three (3) years from the date of the entry of this Order, or until all related investigations and litigations in which the Commission, including the Division, is a party, are concluded, including through the appellate review process, whichever period is longer:

a. Preserve all records relating to the subject matter of this proceeding, including, but not limited to, audio files, electronic mail, other documented communications, and trading records;

b. Comply fully, promptly, completely, and truthfully with all inquiries and requests for non-privileged information or documents;

c. Provide authentication of documents and other evidentiary material;

d. Provide copies of non-privileged documents within Respondent' possession, custody, or control;

e. Subject to applicable laws and regulations, make their best efforts to produce any current (as of the time of the request) officer, director, employee, or agent of Respondent, regardless of the individual's location, and at such location that minimizes Commission travel expenditures, to provide assistance at any trial, proceeding, or Commission investigation related to the subject matter of this proceeding, including, but not limited to, requests for testimony, depositions, and/or interviews, and to encourage them to testify completely and truthfully in any such proceeding, trial, or investigation; and

f. Subject to applicable laws and regulations, make their best efforts to assist in locating and contacting any prior (as of the time of the request) officer, director, employee, or agent of Respondent;

Respondent also agrees that it will not undertake any act that would limit its ability to cooperate fully with the Commission. Respondent will designate an agent located in the United States of America to receive all requests for information pursuant to these Undertakings, and shall provide notice regarding the identity of such Agent to the Division upon entry of this Order. Should Respondent seek to change the designated agent to receive such requests, notice of such intention shall be given to the Division fourteen (14) days before it occurs. Any person designated to receive such request shall be located in the United States of America.

3. PROHIBITED OR CONFLICTING UNDERTAKINGS

Should the Undertakings herein be prohibited by, or be contrary to, the provisions of any obligations imposed on Respondent by any presently existing, or hereinafter enacted or promulgated laws, rules, regulations, or regulatory mandates, then Respondent shall promptly transmit notice to the Commission (through the Division) of such prohibition or conflict, and shall meet and confer in good faith with the Commission (through the Division) to reach an agreement regarding possible modifications to the Undertakings herein sufficient to resolve such inconsistent obligations. In the interim, Respondent will abide by the obligations imposed by the laws, rules, regulations, and regulatory mandates. Nothing in these Undertakings shall limit, restrict or narrow any obligations pursuant to the Act or the Commission's Regulations promulgated thereunder, including, but not limited to, Regulations 1.31 and 1.35, 17 C.F.R. §§ 1.31, 1.35 (2015), in effect now or in the future.

4. PUBLIC STATEMENTS

Respondent agrees that neither it nor any of its successors and assigns, agents, or employees under it authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Respondent's (i) testimonial obligations, or (ii) right to take positions in other proceedings to which the Commission is not a party. Respondent and its successors and assigns shall undertake all steps necessary to ensure that all of its agents and/or employees under its authority or control understand and comply with this agreement.

5. PARTIAL SATISFACTION

Respondent understands and agrees that any acceptance by the Commission of partial payment of Respondent's CMP Obligation shall not be deemed a waiver of its obligation to make further payments pursuant to this

Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.

The provisions of this Order shall be effective as of this date.

By the Commission.

Christopher J. Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission

Dated: February 3, 2017