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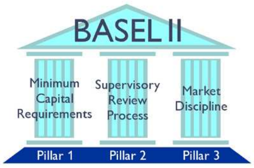
In Focus

"No need for Basel III" Basel Implementation Boss

Modifications being made to Basel II Accord are sufficient to tackle the flaws in the framework and "we are certainly not going in the direction of Basel III", according to the chair of the standards implementation group of the Basel Committee on Banking Supervision.



Speaking at the British Bankers' Association's annual conference in London earlier this month, José María Roldán, who is also director-general of banking regulation at the Bank of Spain, admitted Basel II had its faults, but expressed his belief that it is better to make amendments rather than re-create the Accord altogether.

"Basel II is the best way forward to build banks' capital requirements on, but I would be mistaken if I were not to acknowledge there is room for improvement," he said. "The crisis has revealed a number of areas where the framework could be strengthened to enhance the resilience of individual banks, the banking sector and the broader financial system."

Roldán outlined the most important changes being developed by the Basel Committee, including an increase of minimum capital requirements to better reflect trading book activities; enhanced supervision, risk management, and disclosure of securitizations and off-balance-sheet instruments; and improvements to valuation and stress-testing practices.

He also stressed the importance of efforts to change the definitions of capital, the need to ensure banks build up counter-cyclical capital buffers for use in economic downturns, and the possibility of supplementing the current risk weights with a non-risk-based leverage ratio. "The idea is certainly not to replace Basel II, but rather to add another layer of safety. You don't give up using the seatbelt just because you have an airbag," he said.

Several regulators have suggested the concept of a capital buffer in recent months, as supervisors try to find ways of easing the pro-cyclical effects of Basel II, which can cause banks to stop lending during a recession as their capital runs down. They see mandating banks to build up a capital buffer during the boom as a potential solution, though it would conflict with accounting standards that prohibit provisioning for loan losses not yet realized. Yet since 2000, the Bank of Spain, which acts as regulator as well as central bank, has enforced ‘dynamic provisioning', mandating Spanish banks to build up a capital cushion during favorable economic times.

Asked about the possibility of extending that model beyond Spain, Roldán was positive: "I have never been so optimistic about solving this issue as I am now. From my perspective, there is no contradiction between accounting and solvency. Dynamic provisioning can be seen as a way to perfect fair-value accounting."

In a separate presentation, António Horta-Osório, chief executive of Abbey and executive vice-president of the Santander group, praised Spain's regulatory framework and the dynamic provisioning rules in particular. "In the expansionary phase of the economic cycle, Spanish banks make up a general provision according to credit growth and credit exposure," he said. "This provision is used as a buffer, thereby introducing an automatic stabilizer - something that is particularly helpful in an economy such as Spain that does not have autonomy over monetary policy. As a result, Santander has more than €6 billion of generic provisions in the balance sheet - a substantial capital cushion."

In other sessions at the conference, there was much discussion of emerging regulatory changes in the UK and Europe. Peter Sands, chief executive of Standard Chartered, stressed the need for simplicity in regulation. "Overly complex, opaquely priced products that no-one really understood got many banks into trouble; overly complex, opaque regulations surely can't be the answer," he said. "Burying bankers under regulation doesn't necessarily make them better bankers."

Sands' caution on regulation was echoed by Paul Myners, financial services secretary to the UK Treasury: "Regulation cannot be the sole load-bearing instrument in ensuring our financial system is sound and able to fulfill its role in the wider economy. The greater component of strain has to be taken by governance and investor stewardship."

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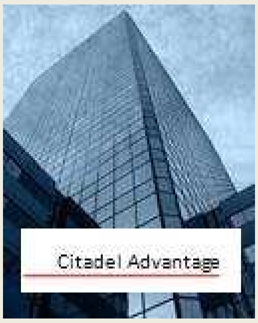

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Director of SEC Inspections Office resigns

A senior Securities and Exchange Commission official who oversaw an office that conducted key probes of Bernard L. Madoff's business is resigning, following a period when the agency reevaluated how it conducts oversight of brokers and investment advisers.

Lori A. Richards is stepping down after 14 years as director of the Office of Compliance Inspections and Examinations, which has come under scrutiny for its role in the SEC's monitoring of Madoff's business. Her office reviewed his firm at least three times, in 1999, 2004 and 2005, without finding the multibillion-dollar fraud he was conducting.

With Richards' departure, SEC Chairman Mary L. Schapiro will soon have installed her own people in nearly all the top positions at the embattled agency. Early in her tenure, she asked enforcement director Linda Thomsen to leave and hired Robert Khuzami, a former federal prosecutor focused on white-collar crimes in New York, as a replacement.

"This is another example of Mary Schapiro deciding that the SEC cannot do business as usual," said John F. Olson, a partner at Gibson, Dunn & Crutcher in Washington. "I think she'll try to re-imagine the office."

Schapiro has acknowledged privately that figuring out the OCIE's future is one of the most challenging internal tasks she faces, though an SEC spokesman said the chairman has no plans to close the office. With a staff of more than 700, the OCIE is responsible for ensuring that brokers and investment advisers, including mutual funds, comply with securities laws.

The demands on the office, which has struggled to keep up with the growth of the financial markets, are about to get more onerous. The Obama administration has proposed that the SEC begin examining hedge, private-equity and venture capital funds.

The extent of Richards' role in the Madoff debacle could become clearer in coming months as the agency's inspector general prepares to release a report on the matter. To date, no evidence has surfaced publicly that Richards played a central role in the Madoff exams. Schapiro has received a limited briefing on the investigation.

In response to lawmakers' questions about Madoff, Richards told Congress that her office doesn't have the resources to keep up with the growing numbers of firms needing oversight. Many firms do not get inspected for years at a time or at all. She has announced efforts to improve examinations of firms dealing in complex financial products, focus on firms that are at high risk of fraud and improve market surveillance.

For many years, compliance and exams were part of the SEC divisions responsible for writing regulations -- markets and trading, for example, or investment management.

But in the mid-1990s, interest grew in creating a watchdog focused solely on oversight and not encumbered by policymaking. In a move resisted by the financial industry, then-SEC Chairman Arthur Levitt created the OCIE in 1995 to toughen oversight and appointed Richards, a top adviser, as director.

"The question about whether it worked or not and whether you lose the expertise and knowledge [by separating oversight] is a fair question," said William R. McLucas, a former enforcement director who is now a partner at the law firm WilmerHale. "I think at least the issue will have to be revisited."

In a statement, the SEC credited Richards with helping the agency uncover a number of abuses in the financial industry, including inappropriate trading by exchange specialists, inadequate disclosures in the credit rating business, conflicts of interests by pension consultants, insider trading and improper fees charged by mutual funds.

"Lori is known widely for her passionate and tireless service to the agency," Schapiro said in a statement. "I respect her decision to leave the SEC and am grateful for her many years of public service."

Richards, who has worked for the SEC for two decades, said in a statement that she is leaving to "take on new challenges."

"I'm enormously proud of the dedication and professionalism of the men and women in the SEC's examination program across the country, and of the important work we did together," Richards said.

Criminal malware infection hits Eastern European cash machines

ATMs in Eastern Europe have been infected with a sample of Windows malware that enables criminals to harvest card data and PIN codes via the machine's receipt printer.

The malware - uncovered by UK-based Trustwave - is installed and activated through a dropper file by the name of isadmin.exe and has been found on machines running the Windows XP operating system. Once installed, the attacker can interact with the ATM by simply inserting a controller card and accessing an array of command options via the machine's keypad.

Trustwave says the command options allow for the output of harvested magstripe card data via the ATM's receipt printer or by writing the data to an electronic storage device using the machine's card reader. Analysts also discovered code indicating that the malware could eject the cash dispensing cassette.

Trustwave recommends that all financial institutions perform analysis of their ATM environment to identify if this malware or similar malware is present.

In a statement, the company says: "Trustwave collected multiple version of this malware and therefore, feels that over time it will evolve. It will also begin to propagate to a more wide-spread population of ATMs, thus a proactive approach in prevention and identification will be necessary to prevent future attacks."

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Operations Risk

Australia

CBA takes NetBank offline as phishing activity spikes

Commonwealth Bank of Australia's online banking operations has suffered multiple outages, sparking speculation that the bank has fallen prey to a massive Denial of Service attack by hackers.

NetBank began experiencing problems over a recent weekend before falling over on the Monday morning. The bank got the service back online early afternoon only for the system to stumble again later in the day. CBA's Netbank has been the subject of fierce phishing activity since introducing a major upgrade last month.

Speaking to local newspapers, NetBank CEO Micahel Harte said the bank took the site offline when performance issues started to affect service quality early on Monday.

"We haven't completely ruled out an attempt to do a denial of service attack," he said. "In order to be absolutely safe we have to check out whether or not this is a new form of attack and make sure that we've not only detected but prevented that attack from affecting our customer's integrity or the integrity of our servers."

But the resumption of 'normal service' later in the day failed to resolve the problems, as the bank throttled the maximum number of connections, and angry users vented their spleen in public online forums. Some customers who managed to log on in the afternoon say the site appeared to be missing recent account transactional data.

South Africa

ATMs fitted with pepper spray

A South African bank has fitted 11 of its ATMs across the Cape Peninsula with pepper spray to deter criminals from tampering with them. ABSA Bank said it had introduced the new technology to help prevent ATM bombings and card skimming after several ATMs around the country were blown up last year. But the plan is not without its pitfalls.

The pepper spray fitted in an ATM in Fish Hoek was accidentally emitted during a routine maintenance inspection at the weekend. Three people had to be treated after inhaling a cloud of pepper spray, ABSA spokesman Gavin Mageni said. Mageni said the new technology involved using cameras at high-risk ATMs.

"The cameras are programmed to determine whether anyone may be tampering with the slots, which is what criminals normally tamper with when they are inserting a bombing device or a card-skimming device," he said.

If such suspicious activity was observed, another machine would eject pepper spray, which would disorientate the criminals, giving an armed response unit time to reach the site.

In conjunction with the police, ABSA is using the technology at 11 sites, identified as high-risk by branch managers.

The Western Cape was billed as the province with the third highest rate of fraud nationwide last year. In the province, R38, 5-million was lost to credit card fraud alone last year. The province also has the second highest number of hand-held skimming devices retrieved since January last year, with police confiscating 40 devices. Skimming devices are used to copy the magnetic strip of a card, allowing con men to access bank accounts.

And Cape Town has been described by authorities as being an extra-high-risk area for card skimming because it is such a popular tourist destination.

This month “Business Against Crime” reported that people using ATMs should be extra vigilant at the end of the month, on Fridays and on public holidays, when they were most likely to be targeted by would-be thieves.

ABSA and other major banks have repeatedly warned customers to be careful with their cards so they can avoid being defrauded.

United States

NYSE resorts to open outcry after computer malfunction

The New York Stock Exchange resurrected the dying art of open outcry recently after a series of computer snags interrupted trading and forced the Exchange to extend the closing by 15 minutes.

The computer problems flared up just 24 hours after the NYSE had trumpeted its switch to a new ultra-fast order execution system, replacing the 25-year old SuperDot platform.

NYSE reported technical problems throughout the day, starting at 9.25 am with issues with floor brokers' handheld computers and culminating at 3.30 pm with an interruption to order flow, just as brokers started submitting trades for the closing auction.

The Big Board postponed the end of business until 4.15 pm. in New York to ensure all orders were executed properly, Larry Leibowitz, head of US markets for NYSE Euronext, told Bloomberg. The NYSE 's 1200 floor traders completed the closing auction manually, instead of using automated systems.

"Having people around as the fail-safe really came through at this point because that allowed us to have a close, where otherwise it might have been very difficult," Leibowitz told Bloomberg Television on the Nyse floor. "Things will always happen with computers, just like they happen with people, but we want to make sure that we can recover as quickly as possible."

FBI arrests programmer accused of stealing trading code

A Russian computer programmer has been arrested by the FBI, accused of stealing proprietary trading code from the New York-based financial institution he used to work for.

According to an FBI affidavit, Segey Aleynikov copied proprietary code relating to the financial institution's platform for high speed, high volume stock and commodities trading, before uploading it to a server in Germany.

Aleynikov worked at the unnamed firm - which according to Reuters columnist Matthew Goldstein is Goldman Sachs - from May 2007 until June 2009 as a computer programmer in a team responsible for, among other things, developing and improving the platform.

The FBI says Aleynikov quit his $400,000 a year job last month, moving to a new company in Chicago that "intended to engage in high-volume automated trading" and that paid him around three times his old salary.

In June, whilst monitoring the uploads of data from its computer system via https, the financial institution noticed that Aleynikov's work desktop was used at least four times to transfer a total of 32 megabytes of information to an external Web site.

The bank then managed to recover a record of commands entered in the accused's desktop, known as a "bash history", relating to the Unix-based operating system used to edit and maintain code associated with the platform.

Aleynikov was arrested on 3 July as he got off a flight at Newark Airport and has since been processed on a "theft of trade secrets charge" in a criminal complaint.

The affidavit says he gave a statement confirming he copied the encrypted files from the firm's server and uploaded them to the Web site before deleting the encryption software and bash history and moving the files to his own computers.

However, Aleynikov claims he only intended to take open source files, not realizing until later that he had also copied proprietary code, which he insists he has not given to anyone else.

The financial institution involved has spent millions of dollars on the platform and accompanying programs, which it believes gives it a "competitive advantage among other firms that also engage in high-volume automated trading".

The FBI affidavit says the bank believes that if its competitors got hold of the platform, its ability to profit from the speed and efficiency it offers "would be significantly diminished".

According to Reuters, Aleynikov has had bail set at $750,000 by US Magistrate Kevin Nathaniel Fox in Manhattan.

Banks and exchanges among denial of service attack victims

The New York Stock Exchange, Nasdaq and US Bank Web sites are among the victims of a sustained computer attack targeted at American and South Korean organizations.

According to reports, South Korean intelligence officials believe North Korean or pro-Pyongyang forces are behind the distributed denial of service (DDoS) attacks that have hit dozens of Web sites over the last week.

The perpetrators are understood to have used a virus to create a botnet made up of tens of thousands of infected computers, which then overloaded targeted Web sites with millions of requests.

US government sites, including those of the Federal Trade Commission and the transportation department were felled by the attack over the weekend. In South Korea, the president's site and those of the ministry of defence and national assembly were hit.

Financial institutions have also been targeted. According to a list of affected sites published by a Korean blogger, NYSE, Nasdaq, US Bank, Korea Exchange Bank and Shinhan Bank were all among the victims.

The Homeland Security department's US computer emergency readiness team has issued a notice to federal departments and others about the problems and given advice on how to deal with them.

Payment, Settlement & Banking Systems

China

Use of virtual cash for trade in the wider economy banned

China has banned the use of virtual currency in the trade of real goods and services in a bid to limit its possible impact on the financial system. In a joint circular from the Ministry of Culture and the Ministry of Commerce, the government stated: "The virtual currency, which is converted into real money at a certain exchange rate, will only be allowed to trade in virtual goods and services provided by its issuer, not real goods and services."

The Chinese government and financial regulators have become increasingly concerned about the transfer of virtual currency - typically earned in online gaming - into the physical economy. According to some estimates, trade in virtual money topped several billion yuan last year after rising around 20% annually.

The most popular Chinese online credits are "QQ coins" issued by Tencent.com, which has at least 220 million registered users. In a media statement Saturday, the company said it "resolutely" supported the new rule and that it would step up its opposition to the booming underground trade in QC coins.

Under the new rules, using virtual money for gambling will be punished by public security authorities, and minors may not buy virtual money.

The Ministry of Culture also vowed to step up supervision on the use of virtual credits in money laundering.

India

Citi in contactless m-payments trial

US banking giant Citi has teamed with MasterCard, Nokia, Vodafone and ViVOtech to pilot contactless mobile phone payments in the Indian city of Bangalore. Participants in the 'Tap and Pay' trial can make credit card payments by waving their NFC-enabled mobile phones over contactless readers at the point of sale at participating merchants.

The bank says it is the largest ever marketplace pilot. Up to five thousand customers and 500 merchants are expected to take part.

To participate, customers need to buy the NFC-capable Nokia N 6212 classic phone pre-loaded with an application enabled with MasterCard's PayPass contactless technology. They can then download their Citibank MasterCard credit card onto the phone over the air.

Transactions require a PIN validation and payments are automatically charged to the customer's card account through the same network that processes traditional credit card transactions.

The pilot will also cover NFC-enabled interactive posters and mobile coupon redemptions.

N. Rajashekaran, country business manager, global consumer group, Citi India, says: "We are very pleased to offer this breakthrough service to our cardholders in Bengaluru and bring to reality the convergence of the wallet with the mobile phone. Our goal is to ensure that Citi Tap and Pay successfully embeds itself into our customers' mobile lifestyles."

United States

SWIFT gaining footing among US corporates

Financial messaging network SWIFT is gaining traction among US corporate treasuries according to a survey conducted by Financial Insights, in a move that presages a subtle shift in the balance of power between banks and their corporate clients.

Financial Insights surveyed 230 corporates primarily doing business in North America and found half of the sample are either interested, evaluating, or already using the SWIFT for corporates (Score) offering.

While the financial crisis has had a catalyzing effect, Financial Insights says SWIFT has also been more effective at marketing its capabilities to corporates.

The big breakthrough for the bank-owned messaging network has been the development of the Alliance Lite interface, which has removed the " SWIFT is too expensive barrier". SWIFT's Alliance Lite offering breaks new ground by enabling Internet-based access to the network for a low monthly fee.

Financial Insights' says that the Lite interface is in tune with the current corporate mood for more open standards and bank-agnostic connectivity.

Banks too are responding to the shift, according to Financial Insights. "Tier 1 banks are moving away from blocking standardization efforts and the leading banks are working with their clients to increase adoption and develop new solutions,".

"We will likely also see less usage of bank payments initiation and cash management applications with the biggest clients, as they move to more straight-through processing via their ERPs, treasury management systems, and communication gateways."

Looking ahead SWIFT is working closely with Score participants to develop new offers for corporates and to solve some of the nagging problems that a fragmented group of financial institutions cannot. On the table are things such as bank account administration and federated identity management.

After the Storm: A new era for risk management in financial services

Less than half of financial services risk professionals believe the principles of risk management remain sound, Economist Intelligence Unit report finds

The global financial crisis has exposed fault lines in the management of risk across many sectors of the financial services industry. Faced with a massive erosion of confidence among key stakeholders, and the prospects of difficult times ahead as the industry seeks to rebuild itself, risk professionals are now questioning the very foundations of risk management. According to findings from a new Economist Intelligence Unit report entitled After the Storm: A new era for risk management in financial services, which is sponsored by SAS, a business analytics software and services firm, less than half of risk professionals in the industry believe that the principles of risk management remain sound.

This suggests that fundamental changes to risk management are required – not just better execution. Indeed, out of the 334 senior risk professionals from the industry questioned for this research, 53% say that they have conducted, or plan to conduct, a major overhaul of their risk management in response to the crisis. The findings also highlight a lack of understanding between the risk function and the broader business, with just 40% of respondents indicating that the importance of risk management is widely understood throughout the business.

In their efforts to overhaul risk management, key areas of focus for respondents include the strengthening of risk governance, a move towards a firm-wide approach to risk, and the ongoing need to improve data availability and quality to support deeper integration of risk within the business. Respondents say that the need for reform is being driven, in particular, by executive management, but that regulators are also starting to apply the pressure.

"The financial crisis has prompted a wholesale reassessment of risk management in many financial institutions as they come to terms with a dramatically changed environment," says Rob Mitchell, editor of the report. "Firms are adopting a range of new ideas and approaches, but face a number of important cultural, technological and organizational challenges before they can successfully recalibrate their risk management."

Other findings from the research include the following:

- The financial services industry is retreating from risk. Only around one-third of executives believe that the outlook is positive for their business in terms of either revenue growth or profitability over the next year, and less than one-third say that they are seeing confidence return to their business. This erosion of confidence is having a dramatic impact on the kind of business that financial institutions are willing to carry out, with many retreating into familiar, domestic business.
- Increased transparency is the main goal of reform. Asked about the initiatives that they thought would be most beneficial to the financial services industry, respondents pointed to greater disclosure of off balance sheet vehicles, stronger regulation of credit rating agencies and the central clearing of over-the-counter derivatives as being three among the top four that have the greatest potential benefit. Although these are wide-ranging activities, there seems to be a common theme across all of them—namely, the requirement for greater transparency and disclosure to facilitate the more effective management of systemic risk issues.
- Respondents lack confidence in the ability of supervisors to formulate the right response to the crisis. Just three in ten respondents are confident that policy-makers can formulate an effective response to the crisis. Regulators, in particular, are singled out as being a potential weak spot, with less than one-third rating their handling of the financial crisis as good or excellent (a lower proportion than for either central banks or governments).

You can download the briefing paper After the Storm: A new era for risk management in financial services free of charge [PDF 1,453 KB] from the link below.

http://www.eiu.com/site_info.asp?info_name=after_the_storm&page=noads

Laws, Regulation & Litigation

European Union

European Commission sets out tech-driven action plan for derivatives trading

The European Commission is calling for a technology-driven overhaul of the derivatives markets in a sweeping set of proposals designed to strengthen the safety of the financial system. In a policy response that broadly mirrors the regulatory initiatives expounded across the Atlantic, the EC says the financial markets should invest heavily in post-trade automation and standardized data management systems to reduce risks in the free-wheeling derivatives markets.

The set of papers released by the Commission highlight how derivatives in general and credit default swaps in particular have created a web of mutual dependence that makes it difficult to understand, disentangle and contain risk in the immediate aftermath of a default.

"The characteristics of OTC derivative markets - the private nature of contracting with limited public information, the complex web of mutual dependence, the difficulties of understanding the nature and level of risks - increase uncertainty in times of market stress and accordingly may undermine financial stability," says the EC.

Greater transparency could be achieved by encouraging broader take up of standard contracts and electronic affirmation and confirmation services, central storage, automation of payments and collateral management processes, says the EC.

It also calls for the creation of central data repositories, modeled on the DTCC's Trade Information Warehouse initiative in the CDS markets. European securities regulators (CESR) are currently carrying a feasibility study for data repository based in the European Union, and the Commission says it will decide the next steps to take when the study is complete.

On central counterparty clearing, the Commission has set a 31 July deadline for the introduction of a CCP for credit default swaps and says that it will "incentivize" the broader use of CCPs in other OTC derivatives markets wherever possible.

On the question of shifting off-exchange OTC trading to centralized trading venues - a solution favored by US regulators - the Commission is more circumspect. While such a measure "would improve price transparency and strengthen risk management...it could come at a cost in terms of satisfying the wide diversity of trading and risk management needs". It says further study is needed to ascertain the most appropriate outcome, "taking into account the bespoke and flexible nature of OTC derivatives markets and the regime applicable to cash equities".

The Commission says it will hold a public hearing on the Communication on 25 September 2009.

"Taking into account the outcome of the consultation, the Commission will draw operational conclusions before the end of its current mandate and present appropriate initiatives, including legislative proposals as justified, before the end of the year to increase transparency and ensure financial stability."

United States

UBS to be forced to name tax cheats

Swiss bank UBS AG "systematically and deliberately" violated US law by dispatching private bankers to recruit wealthy Americans interested in evading taxes and must be forced to reveal the identities of 52,000 of those clients, the Justice Department said in a court filing recently.

The filing, which comes amid several published reports that the case may be near settlement, urges US District Judge Alan S. Gold to hold UBS accountable for conducting years of illegal business on US soil — business that earned the bank more than $100 million in fees but cost the US hundreds of millions of dollars in unpaid taxes.

"It is time for UBS to face the consequences that it has brought upon itself," said Justice Department tax attorney Stuart Gibson in the 55-page filing. "The United States has proven its case for enforcement."

Gold has set a hearing on whether to enforce what are known as "John Doe summonses" used by the Internal Revenue Service to seek information about US taxpayers. US and Swiss newspapers have reported a settlement is likely before that hearing, but Justice Department spokesman Charles Miller declined comment.

UBS spokeswoman Karina Byrne said the bank is "open to an appropriate solution" short of going to court but said no settlement has been completed. In a statement, she repeated UBS's contention that disclosing the US taxpayer names would violate Swiss law and that the dispute should be resolved by the two governments rather than the courts.

"UBS has sought to comply with the summons without violating Swiss law," Byrne said. "It has provided to the IRS as much information as it can from those records located in the US, where Swiss law does not apply."

The IRS summons seeks the identities of all US taxpayers who had an "undeclared" account at UBS between 2002 and 2007. Many of these UBS clients have already voluntarily come forward to settle tax obligations with the IRS, Byrne said.

Zurich-based UBS wrote to its US-based clients in March and April telling them to close their accounts within weeks and transfer any money to a specially created US unit, to another bank or to withdraw the funds. That grace period ended on July 1, according to the source close to the bank who requested anonymity because of the sensitivity of the matter.

"Please be advised that if your instructions are not received within 45 days of the date of this letter, UBS will initiate any steps deemed appropriate for the closure of and remittance of funds in your account," the bank said in its letter.

UBS said it might liquidate the accounts and send clients checks or hold the checks for them in Switzerland.

UBS previously reached a deferred prosecution agreement with the Justice Department in which it agreed to disclose the identities of up to 300 US clients and pay $780 million to the U.S. government. In that deal, UBS admitted regularly violating U.S. law through its client recruitment methods, use of sham offshore entities and filing of false paperwork.

"In sum, UBS has admitted that its bankers committed very serious crimes on US soil, in ways that subjected UBS to the full jurisdiction of the IRS and the courts of the United States," Gibson said in the U.S. filing.

One of those 300 UBS clients, accountant Steven Michael Rubinstein, pleaded guilty at the end of June in Fort Lauderdale federal court to charges of filing a false tax return. He faces up to three years in prison.

Miami federal prosecutors also have obtained an indictment charging former UBS senior executive Raoul Weill with tax evasion conspiracy for his role in handling cross-border business and private banking. Weill remains in Switzerland and has been declared a fugitive from justice.

That indictment followed the July 2007 guilty plea by former UBS executive Bradley Birkenfeld to a similar charge of conspiracy to defraud the US Birkenfeld has yet to be sentenced and has been cooperating extensively with federal investigators.

Remittances

Pakistan

Record $7.8bn remittances: what next?

State Bank of Pakistan announced on Friday that Pakistan received the highest-ever amount of over $7.8 billion as workers' remittances in 2008-09, beating the previous record of $6.4 billion of 2007-08.

Remittances have been rising for past several years, but this year's increase has rung alarm bells in the country. People have expressed fears that Pakistanis working abroad might return home in large numbers owing to the recessionary conditions in developed countries, particularly the US. Also, people who had been working in UAE's construction industry are coming back owing to the slump experienced by the real estate sector there.

In this scenario, flow of money from abroad is likely to go down this year, which will be a difficult situation for the government in Pakistan to manage. Successive governments have relied heavily on remittances to meet trade and current account deficits during the last seven years.

The money sent by overseas Pakistanis used to be invested either in real estate or in some business, which would boost country's gross domestic product. Now the economy of the country will also lose this investment. The return of overseas Pakistanis will be a huge setback to the country's economy also because the large number of people coming back home will look for jobs and put immense pressure on a job market where already there are hundreds of candidates for every new job opening. The jobless rate will rise sharply and could lead to social unrest.

In FY09, workers' remittances showed an increase of 21.08 percent, or $1.36 billion, when compared with FY08. The monthly average remittances during the year stood at $650.95 million as compared with $537.60 million in 2007-08.

The inflow of remittances from USA, UAE, Saudi Arabia, GCC countries (including Bahrain, Kuwait, Qatar and Oman), UK and EU countries amounted to $1.735 billion, $1.688 billion, $1.559 billion, $1.202 billion, $605.69 million and $247.66 million, respectively, compared with $1.762 billion, $1.090 billion, $1.251 billion, $983.39 million, $458.87 million and $176.64 million.

Remittances received from Norway, Switzerland, Australia, Canada, Japan and other countries during FY09 amounted to $771.03 million as against $726.29 million in FY08.

In June 2009, Pakistani workers remitted an amount of $735.17 million, up $187.76 million or 34.30 percent when compared with $547.41 million sent home in June 2008. The amount remitted in June 2009 is the second-highest received in one month, following $739.43 million sent home in March 2009.

The inflow of remittances into Pakistan from most of the countries of the world increased last month as compared to June 2008. According to the break up, remittances from UAE, USA, Saudi Arabia, GCC countries (including Bahrain, Kuwait, Qatar and Oman), UK and EU countries stood $164.70 million, $154.39 million, $152.33 million, $108.11 million, $68.48 million and $22.95 million, respectively, compared with $88.29 million, $143.57 million,

$123.67 million, $90.98 million, $38.08 million and $13.98 million in the same month of last year. Remittances received from Norway, Switzerland, Australia, Canada, Japan and other countries during June 2009 stood at $64.19 million compared with $48.80 million during June 2008. The amount of $7.811 billion includes $0.48 million received through encashment and profit earned on Foreign Exchange Bearer Certificates (FEBCs) and Foreign Currency Bearer Certificates (FCBCs).

You gotta be kidding!

I generally find the subject of banking, risk management, payments and so on to be pretty serious stuff. After all I have spent my entire career dealing with the various aspects of all of this.

I must admit however that there is always room for a lighter side to everything. But so far I always seem to have missed these more amusing moments. So my recent discovery of a news item really set me chuckling. And what did I find so funny?

Well, a simple headline reading “Mobile Banking Popular on Cell Phones.” The mind boggles at the implications.

You can see it (and read the article too) at
http://www.appscout.com/2009/07/mobile_banking_use_rises_on_ce.php