Bankers Trust Facing Action On Derivatives

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12/5/94 By JOHN CONNOR
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Three federal agencies are preparing to take enforcement action against **Bankers Trust New York Corp.** in connection with the firm's derivatives business, according to government officials.

These people said the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Federal Reserve are preparing to charge Bankers Trust with securities, commodities, and banking violations arising out of the firm's derivatives activities.

"It shouldn't be a big secret something's going to happen pretty soon," said one senior regulator, who confirmed that the three agencies are readying legal action against Bankers Trust.

CFTC Chairwoman Mary Schapiro, SEC Enforcement Director William McLucas, and Fed spokesman Joseph Coyne all declined to comment on the matter.

A Bankers Trust spokesman, Thomas Parisi, would not comment on the government action except to acknowledge that the government is investigating its derivatives activities and to say that the company is cooperating with those investigations.

While officials declined to discuss the particulars of coming actions, the SEC's concerns are known to center in part on the adequacy of disclosure by Bankers Trust of the risks involved with the derivative products it sold to customers.

Enforcement cases often result in consent decrees where the parties being sanctioned agree to avoid further violations and make payments in the form of penalties, restitution or both.

The government investigations began after **Procter & Gamble** Co. and **Gibson Greetings** Inc. filed civil lawsuits against Bankers Trust in federal court in Cincinnati. The companies claimed that the bank misrepresented the risks of several exotic "swap" transactions that they had entered into with the bank.

In swap transactions, a financial institution agrees to pay a company a fixed interest rate in return for a floating rate. Swaps are a form of derivatives, financial arrangements whose returns are linked to—or derived from—changes in the value of some stock, bond, currency or other asset.

The swaps were hypersensitive to interest-rate changes, and the recent rise in rates resulted in highly publicized losses for both companies. On a pretax basis, Procter reported a $157 million loss, and Gibson said it had a loss of $23 million.

Gibson and Bankers Trust reached an out-of-court settlement last month. Under that agreement, the bank reduced Gibson's liability to just $6.2 million. Bankers

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Trust said it will continue to defend itself in the Proctor & Gamble suit.

Bankers Trust is one of the leading participants in the derivatives business. However, the losses of its customers, the lawsuits and a general reduction in the demand for derivatives has resulted in a sharp decrease in the company's earnings. In composite trading on the New York Stock Exchange Friday, the company's stock closed at $58.125, down 37.5 cents, and near the 52-week low of $54.75.

While the bank has not admitted to any wrongdoing, it has reassigned five executives who were involved in the Procter and Gibson transactions as a result of an investigation into the company's sales practices.

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