FINANCIAL TIMES

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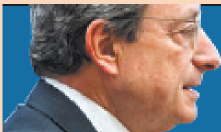


Person of the year
Draghi: the man who gave Europe hope. Page 7

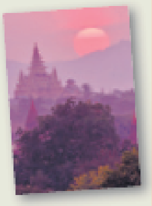
Bernanke's long march to low unemployment
Gillian Tett, Page 24

World Business Newspaper

TOMORROW IN FT WEEKEND

FT travel writers Jan Morris, Paul Theroux and Pico Iyer on their discoveries of 2012

Life & Arts



News Briefing

Federal Reserve to stress test banks
The Federal Reserve is carrying out a system-wide stress test of bank liquidity in a move that could force banks to change their funding sources.
Page 13; James Grant, Page 9

Web treaty rejected
The US, the UK and Canada have rejected a global communications treaty to be signed by most UN states over concerns it may be used to justify wider censorship of the internet. Page 13

Fiscal cliff meeting
Barack Obama and John Boehner, the Republican Speaker, meet for the second time in less than a week in an effort to break deadlocked US budget negotiations.
Page 2; www.ft.com/fiscal

Russia sees Syria fall
Senior Russian officials have admitted for the first time that rebel forces may push President Bashar al-Assad from power in Syria. Page 3; Comment, Page 9; www.ft.com/syria

ANC to set direction
The African National Congress's five-yearly conference that begins on Sunday will be a key indicator of the direction the party will take. Page 2; Editorial Comment, Page 8

China widens rift
China has turned up the heat in its dispute with Japan by using a government aircraft for the first time to challenge Tokyo's control of a group of islands. Page 6

Sugar prices tumble
Sugar prices are at their lowest level in more than two years as a big Brazilian crop pushes the market below a key level. Page 24; www.ft.com/commodities

South Korea hits high
Despite North Korea's growing military threat, South Korean investors appear to be full of euphoria as its stock market reaches a multiyear high. Page 25

UBS faces $1bn fine over Libor allegations

Swiss bank in talks with global regulators

By Caroline Binham, Brooke Masters and Daniel Schäfer in London and Kara Scannell in New York

UBS faces a record fine of more than $1bn to settle allegations that it manipulated Libor as the worldwide probe into rigging of the benchmark rate gathers pace.

The bank and various authorities around the world are locked in last-minute negotiations that are likely to see UBS publicly settle as early as Monday, people familiar with the investigation told the Financial Times.

Such a fine would more than double the £290m Barclays paid in a then-record settlement over Libor this summer – despite UBS publicly winning leniency for co-operating with authorities.

A hefty fine over Libor-rigging would cap a terrible year for the Swiss-based bank that has seen a rogue trader go to jail, a SFr349m ($377m) loss on the botched Facebook IPO, and a tarnishing of its once-mighty investment bank.

Its long chain of mishaps threatened to undermine the reputation of UBS's core wealth-management business, and has contributed to the decision by chief executive Sergio Ermotti, and his new chairman, Axel Weber, two months ago to cut 10,000 jobs and wind down a sizeable part of the investment bank.

"After such high losses from operational and credit problems such as structured credit, rogue trading and Libor, investors applaud them closing a significant chunk of the investment bank and refocusing on wealth management," said Huw van Steenis, an analyst at Morgan Stanley.

UBS's share price dropped slightly yesterday after the FT revealed the size of the Libor fine, ending the day 1 per cent down at SFr15.06. Even by September the bank had set aside SFr667m in legal provisions.

UBS's compliance failures were underscored last month when a former trader was sentenced to seven years in prison for the biggest banking fraud in British history – a scandal that cost the bank $2.3bn in rogue trades, its chief executive, and a £29.7m fine levied by the UK's Financial Services Authority.

That will be a fraction of the fine demanded by the FSA, along with the US Department of Justice and US Commodity Futures Trading Commission, and by Finma, UBS's main Swiss supervisor, to settle Libor-manipulation allegations.

All four are expected to extract some sort of monetary settlement; Finma cannot impose fines but can demand that companies give up ill-gotten gains.

Libor is the umbrella term for benchmark rates that underpin the terms of $300tn of contracts from mortgages to the cost of corporate lending. The probe, which has embroiled about 20 of the world's biggest banks and interdealer brokers, has accelerated with the first arrests taking place this week in the UK.

UBS, the FSA, Finma and the US authorities all declined to comment.

Hirst for change Artist splits from richest art gallery

Artist Damien Hirst (above with his piece 'The Incredible Journey') is parting company with the world's richest gallery. Gagosian has represented the world's wealthiest artist, who has an estimated fortune of £215m, for the past 17 years Report, Page 6 Getty Images

Draghi's rally cry for new EU powers

By Michael Steen and Lionel Barber in Frankfurt

The EU needs fresh powers to wind up failing banks in a speedy push to the next phase of banking union after a landmark agreement on centralised supervision, according to Mario Draghi, president of the European Central Bank.

The hard-won agreement among eurozone finance ministers yesterday to appoint the ECB as the "single supervisory mechanism" was the first and easiest step in a banking union plan aimed at preventing a repeat of the financial contagion that dragged down banks and sovereigns in the crisis.

The next phase – agreeing on a common resolution authority to oversee the orderly winding down of insolvent lenders – is likely to be even more fraught as it implies taxpayers might have to pay for the mistakes of a bank in another country.

"A European resolution authority is an important complement to the SSM and it will likely be in place by the time the SSM takes up its responsibilities," Mr Draghi told the Financial Times on the eve of the agreement. The bank expects to take a year to prepare itself to take over responsibility for supervising lenders with assets of more than €30bn.

Mr Draghi's confidence that wind-up powers will be in place by early 2014 comes despite a Franco-German battle about the speed and scope of banking union, with Berlin urging less haste for fear of sharing the burden of losses from winding down a foreign bank.

The bailout authority was due to be discussed at a summit of EU leaders last night, which followed 14 hours of uncharacteristically rapid decision making by eurozone ministers.

Hours after agreeing the framework for a new supervisor, finance ministers agreed to release a long-delayed €34.4bn payment to Greece.

Antonis Samaras, the Greek prime minister, hailed the deal as historic. "Grexit is dead," he said as he arrived in Brussels.

Asked what the bank would do if Europe's leaders could not agree on a common resolution scheme quickly, Mr Draghi indicated the bank would be prepared to in effect shame local supervisors and governments to take action.

He said: "Even in [the resolution mechanism's] absence, the single supervisor's assessment of the possible non-viability of a bank would be such a strong statement that it would likely trigger the national government's policy response."

Eurozone woes, Page 4
Analysis, Page 7
Editorial Comment, Page 8
Lex, Page 12
Markets, Page 25
www.ft.com/draghitranscript

Rice withdraws

President Barack Obama, in the middle of a budget battle with Republicans, skirted a second potentially prolonged fight over his cabinet with the withdrawal of Susan Rice, above, as a candidate for secretary of state. Ms Rice had been criticised by Republicans over her role in the aftermath of the attack on the US consulate in Libya.

Report, Page 2
www.ft.com/edluce

JPMorgan uses counter-terrorism tools to spot fraud among workers

By Richard Waters in London

JPMorgan Chase has turned to technology used for countering terrorism to spot fraud risk among its own employees and to tackle problems such as deciding how much to charge when selling property behind troubled mortgages.

The technology involves crunching vast amounts of data to identify hard-to-detect patterns in markets or individual behaviour that could reveal risks or openings to make money. Other banks are also turning to "big data", the name given to using large bodies of information, to identify potential rogue traders who might land them with massive losses, according to experts in the field.

"They're trying to mine not just trading data, but also emails [and] phone calls," said David Wallace, an executive at SAS, a US data analysis company. "They're trying to find the needle in the haystack."

Guy Chiarello, JPMorgan's chief information officer, said the bank was mining massive bodies of data in "a couple of dozen projects" that promised to have a significant impact on its business, though he refused to give further details.

According to three people familiar with its activities, JPMorgan has used Palantir Technologies, a Silicon Valley company whose technology was honed while working for the US intelligence services, for part of its effort. It first used the technology to spot fraudsters trying to hack into client accounts or ATMs, but has recently started to turn it on its own 250,000-strong staff.

In another aspect of its big-data work, the bank is drawing on large amounts of highly diverse information about local economies where it has troubled real estate loans, two of these people said. The information is being used to set prices for property sold before a loan goes into default, in an attempt to reduce the social disruption caused by the troubled loans.

Other tech companies are also finding new purposes for number-crunching techniques used in intelligence to bring new data-intensive approaches to risk management, credit assessment and marketing activities. Quantifind, a tech start-up that has worked with the CIA to identify aliases used by terrorists, was called in by JPMorgan to explain how its technology could be applied to its credit card business, said Ari Tuchman, chief executive.

Data open doors, Page 15
www.ft.com/techblog

World Markets

STOCK MARKETS

	Dec 13	prev	%chg
S&P 500	1416.45	1428.48	-0.63
Nasdaq Comp	2992.16	3013.81	-0.72
Dow Jones Ind	13170.72	13245.45	-0.56
FTSEurofirst 300	1134.86	1139.63	-0.42
Euro Stoxx 50	2627.86	2635.34	-0.28
FTSE 100	5929.61	5945.85	-0.27
FTSE All-Share UK	3050.57	3058.25	-0.25
CAC 40	3643.13	3646.66	-0.10
Xetra Dax	7581.88	7614.79	-0.43
Nikkei	9742.73	9581.46	+1.68
Hang Seng	22445.59	22503.35	-0.26
FTSE All World $	[illegible]	232.46	-

CURRENCIES

	Dec 13	prev		Dec 13	prev
$ per €	1.309	1.304	€ per $	0.764	0.767
$ per £	1.613	1.612	£ per $	0.620	0.621
£ per €	0.811	0.809	€ per £	1.233	1.236
¥ per $	83.6	82.9	¥ per €	109.4	108.1
¥ per £	134.8	133.7	£ index	83.7	83.7
$ index	80.0	80.2	€ index	86.77	86.44
SFr per €	1.209	1.212	SFr per £	1.490	1.497

COMMODITIES

	Dec 13	prev	chg
Oil WTI $ Jan	85.89	86.77	-0.88
Oil Brent $ Jan	107.61	108.50	-0.89
Gold $	1,711.85	1,710.05	1.80

INTEREST RATES

	price	yield	chg
US Gov 10 yr	99.83	1.73	0.03
UK Gov 10 yr	99.82	1.87	0.02
Ger Gov 10 yr	101.37	1.35	0.01
Jpn Gov 10 yr	99.77	0.73	0.02
US Gov 30 yr	96.86	2.91	0.01
Ger Gov 2 yr	100.10	-0.05	0.01
	Dec 13	prev	chg
Fed funds eff	0.17	0.17	-
US 3m Bills	0.06	0.07	-0.01
Euro Libor 3m	0.12	0.12	0.00
UK 3m	0.37	0.37	-

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FINANCIAL TIMES

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Counter-terrorism tools used to spot fraud

By Richard Waters in London

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Some of the same technologies revolutionising risk-management in banks, meanwhile, are being used to break down barriers in the financial services business and let start-ups compete head-on with large institutions.

Larry Summers, former US Treasury secretary, predicted that this would lead to a wave of new technology-based companies in the consumer lending and investment fields.

“We’ve had a generation where financial innovation was found in large institutions for the benefit of large pools of capital,” he told the FT. “I think the next generation of innovation will be more for consumers.”

Mr Summers on Thursday joined the board of Lending Club, a Silicon Valley start-up that lets individuals invest directly in pools of consumer loans it generates over the internet. The company has been able to take a large slice out of the funding and operating costs of a traditional bank and offer better terms to borrowers and lenders, said RenaudLaPlanche, Lending Club’s chief executive.