UBS, Sub-Debt Downgrade, Arms-Export Case: Compliance (Update1)

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By Lisa Brennan

July 28 (Bloomberg) -- UBS AG, the world's largest wealth manager, said it placed an employee on administrative leave after the Wall Street Journal reported the Swiss bank suspended U.S. fixed-income chief David Shulman.

``We did place an employee on administrative leave last week but we decline to identify the employee,'' Tatiana Togni, a spokeswoman for UBS in Zurich, told Bloomberg News. Shulman remains head of fixed income, added Karina Byrne, a spokeswoman in New York.

E-mails between Shulman and UBS executives were disclosed in a lawsuit filed June 26 by Massachusetts Secretary of State William Galvin, who claimed the bank committed fraud by selling the bonds as the equivalent of money market securities without disclosing to investors that the $330 billion auction-rate securities market was lurching toward a breakdown.

Shulman, also global director of municipal securities, ran the auction-rate securities business for Switzerland's biggest bank, the New York-based newspaper said.

UBS Defends Marketing of Auction Securities as `Honest, Ethical'

UBS AG said it was ``honest and ethical'' in its marketing of auction-rate securities, according to the bank's reply to a lawsuit filed last month by Massachusetts Secretary of State William Galvin accusing it of fraud.

UBS, the second-largest underwriter of municipal auction- rate securities in the U.S. after Citigroup Inc., said it had grounds to believe the auction-rate bonds it sold ``were suitable for clients.'' It also said in its reply that it has ``taken substantial measures'' to help investors trapped since the auction-rate market collapsed in February and to assist issuers restructuring the debt.

``Contrary to the allegations, UBS is committed to serving the best interests of its clients,'' the Zurich-based bank said in the filing dated July 17, obtained from Galvin's office. The bank is being represented by the law firm Debevoise & Plimpton LLP in New York, according to the filing.

State and federal regulators began probing Wall Street's marketing of auction-rate securities after investment banks abandoned the $330 billion market, permitting thousands of auctions to fail and leaving investors unable to sell the debt. Municipalities, closed-end funds and student loan organizations sold the long-term bonds, and the banks ran the auctions where the interest rates were reset every week or month.

In addition to individuals, at least 435 publicly traded companies hold the securities, with 247 of them writing down the value of their holdings since the market collapsed, resulting in losses of $2.18 billion, according to a survey by Pluris Valuation Advisors LLC in New York.

Regulators in Massachusetts, New York and Texas filed formal complaints against UBS demanding the bank offer to buy back at face value the securities it sold. Galvin is still probing Merrill Lynch & Co. and Bank of America Corp. while New York Attorney General Andrew Cuomo, in announcing a suit against UBS July 24, said he is continuing his investigation of the bank and other brokers, refusing to rule out more lawsuits against firms or executives.

Galvin alleged in his lawsuit filed June 26 that UBS told investors the long-term bonds were ``safe, liquid cash alternatives,'' as demand waned for the securities last year. He said UBS ``stepped up'' a campaign to sell the debt as the market softened and its own holdings of the securities grew to more than $11 billion.

``The statements at issue were not false or misleading at the time they were made,'' UBS said in its reply. ``Any misrepresentations or omissions were made in good faith,'' the bank said, adding that ``respondents' actions were honest and ethical.''

For more, click here.

Lowy, Billionaire's Son, Refuses to Testify in Tax-Evasion Probe

The son of **Frank Lowy**, Australia's second-richest person, refused to answer questions from a U.S. Senate panel on the family's alleged use of Liechtenstein bank accounts to shelter at least $68 million from taxes.

Peter Lowy, a U.S. citizen, invoked his Fifth Amendment right against self-incrimination in appearing July 25 under subpoena before the Permanent Subcommittee on Investigations. U.S. businessman Steven Greenfield, who appeared under threat of contempt of Congress for skipping an earlier panel hearing, also invoked the constitutional privilege.

Both men were compelled to appear after missing a related July 17 hearing. The panel is investigating how Liechtenstein's LGT Group and UBS AG helped Americans hide assets in offshore bank accounts. UBS has agreed to help the U.S. identify 19,000 Americans with hidden accounts, and the IRS is investigating 147 Americans with accounts at LGT Group.

``The Greenfield and Lowy case histories unfold like spy novels, with secret meetings, hidden funds, shell corporations, captive foundations and complex offshore transactions spanning the globe,'' said subcommittee Chairman **Carl Levin**, a Michigan Democrat.

Peter Lowy, 49, heads U.S. operations for Westfield Group, the world's biggest owner of shopping centers. His father is worth at least $6 billion and is the 222nd richest person in the world, according to Forbes magazine.

After his son refused to testify under oath, the family issued a statement that noted the subcommittee hasn't accused the family of avoiding U.S. taxes.

The statement, provided by spokesman Mark Ryan, said the ``Lowy family has relied on professional advice that it has met all tax obligations in this matter both in Australia and the U.S.''

According to the Senate report, the Lowys were once among LGT's biggest customers. In 1997, the report says, they created a network of entities and transfer companies in the British Virgin Islands, Switzerland, Liechtenstein and Delaware to shift $54 million to an LGT account held in the name of a company called Crofton that was controlled by the Lowy family. Additional funds added to the account over the years increased its assets to $68 million.

Frank Lowy previously said the money was donated to Israeli charities. Levin said the family declined to name the charities involved or identify dates and amounts of donations. The family said in its statement that it provided that information to the Australian tax authorities.

Surge in Cayman Registrations Prompts Call for New IRS Powers

Senate Finance Committee Chairman **Max Baucus** said he would propose giving federal agents more power to identify and prosecute Americans who stash money in offshore accounts to illegally evade taxes.

Baucus, a Montana Democrat, said he would introduce six new measures in response to a Government Accountability Office study showing that the number of shell companies registered at Ugland House, a five-story building in the Cayman Islands grew to 18,857 this year from 12,748 four years ago. Some 9,000 of the entities are American, the GAO said.

``Today, we will hear a lot of complicated reasons why those 9,000 Americans chose to conduct business out of the Ugland House,'' Baucus said while opening a hearing on the subject. ``And the answers have a lot to do with tax evasion.''

Baucus and other senators, such as North Dakota Democrat **Kent Conrad**, have spotlighted Ugland House as an icon of offshore tax evasion, a problem lawmakers say robs the U.S. Treasury of $100 billion annually and Conrad said ``is growing like a cancer.''

A 2004 investigation by Bloomberg News found that Ugland House and other office buildings in George Town, the capital of the Cayman Islands, were home to subsidiaries of more than 150 U.S. corporations, including Coca-Cola Co., Intel Corp. and 10 other companies in the Dow Jones Industrial Average.

The GAO's focus on the Cayman Islands, a British crown colony about 150 miles southwest of Cuba, is parallel to an investigation by the Senate's Permanent Subcommittee on Investigations into the use of Swiss and Liechtenstein banks by Americans to hide assets from authorities.

Fannie-Freddie Subordinated Debt May Be Cut by S&P

Standard & Poor's may downgrade the subordinated bonds of **Fannie Mae** and **Freddie Mac**, surprising investors who had anticipated the securities would be supported by any Treasury rescue plan.

The potential cut would affect $19.2 billion of AA- rated subordinated debt at **Fannie Mae** and **Freddie Mac**, according to data compiled by Bloomberg. S&P said it may also cut $26 billion of preferred stock. The AAA ratings on the companies' senior debt were affirmed with a stable outlook.

New legislation authorizing a backstop of the mortgage- finance companies leaves it up to the Treasury Secretary to decide whether to honor preferred dividend payments or to repay subordinated bondholders before the government, S&P analyst **Victoria Wagner** said in a telephone interview. That ``ambiguity'' casts a cloud over the ratings, she said. Once analysts have fully analyzed the final legislation, the ratings may be cut one or two levels, she said.

``We had factored in some federal support for these securities, but now I think the financial risks are now outweighing support and have to be reflected in the rating,'' Wagner said.

Investors had anticipated any government rescue would come in the form of equity, which would rank behind subordinated debt for repayment, said **Jamie Jackson**, a portfolio manager at Minneapolis-based RiverSource Investments, which manages $93 billion of fixed-income assets.

For the full story, click here.

U.S. Congress Passes Fannie, Freddie Rescue Measure

The U.S. Congress passed and sent to the president legislation to stem foreclosures for 400,000 homeowners and aid **Fannie Mae** and **Freddie Mac**, its most sweeping effort to halt the biggest housing slump since the Depression.

The U.S. Senate voted 72-13 July 26 in Washington during a rare Saturday session, following a July 23 vote in the House. President **George W. Bush** will sign the measure into law, putting aside his objections to some provisions, a spokesman said.

The bill ``is a step, and I hope and expect an important step, towards putting our nation on the road to economic recovery,'' Senate Banking Committee Chairman **Christopher Dodd**, a Connecticut Democrat who introduced the measure, said on the Senate floor.

The legislation is the most comprehensive package considered by Congress to curb a surge in foreclosures, plunging housing prices and market turmoil stemming from the worst housing recession since the Great Depression. U.S. foreclosure filings more than doubled in the second quarter from a year ago.

New Orleans Sues Ambac for Breach of Contract Over Insurance

New Orleans is suing **Ambac Financial Group Inc.** for breach of contract, alleging the bond insurer's ``greed'' and ``mismanagement'' caused it to lose its AAA credit rating, costing the city at least $2 million in extra debt service.

The complaint, filed in federal court in Louisiana on July 17, said the city wouldn't have issued $171 million of taxable floating-rate pension bonds in December 2000 and bought an interest-rate swap, without Ambac's assurance that its policy would allow the city to successfully sell the debt. The suit also alleges that Zurich-based **UBS AG** prematurely stopped efforts to market the bonds in February, after Ambac lost its top credit rating.

``Out of greed, AAC unwisely expanded its credit enhancement business for structured finance products involving subprime consumer finance paper,'' the complaint said, referring to the insurance subsidiary Ambac Assurance Corp. ``Now, the city must pay increased debt service on its bonds and faces other costs that run into the tens of millions of dollars.''

Municipalities are increasingly turning to the courts for redress after borrowing costs surged when companies that insured their bonds were downgraded because of losses on securities backed by home loans. On July 23, Los Angeles sued Ambac, **MBIA Inc.** and four other bond insurers for allegedly conspiring to maintain a credit-rating system that led local governments to buy ``unnecessary'' policies on their bonds.

Vandana Sharma, an Ambac spokeswoman, said the bond insurer doesn't comment on pending litigation. **Doug Morris**, a UBS spokesman, declined to comment.

Jefferson County Slams Bond Plan That Draws Wall Street's Ire

Jefferson County, Alabama, won't pursue a proposal by the state's pension fund to sell off the county sewer system to escape from $3.2 billion of bonds whose interest rates soared this year, one commissioner said.

David Bronner, head of the Retirement Systems of Alabama, said the pension fund would be willing to pay as much as $2 billion for the sewer system, the Birmingham News reported. The proposal would require the county to declare the sewer system bankrupt and would leave Wall Street banks, investors and bond insurers with more than $1.2 billion of losses on county debt and interest-rate swaps, the newspaper said.

``That is not the way the commission is going,'' said Democrat George Bowman, who is among the majority of the five- member commission who criticized the plan July 25. ``The reaction on Wall Street was one of outrage, total outrage.''

Jefferson County is negotiating with banks led by **JPMorgan Chase & Co. on** a plan to escape from the bonds whose interest rates tripled this year when the two insurance companies that guarantee the debt, XL Capital Assurance Inc. and **Financial Guaranty Insurance Co.,** lost their top credit ratings.

The county's problems have been compounded by more than $5 billion of interest-rate swap agreements, which backfired and left it deeper in debt when borrowing rates moved the wrong way.

Jefferson County's current financial advisers have proposed raising real-estate taxes and using sales and occupational taxes to pay for the sewer system's debts, Bowman said. An increase to the real-estate tax would require the approval of both the Legislature and voters statewide. Bowman said the initial proposal garnered support among its bankers.

``They felt our plan was doable,'' he said.

Jefferson County officials face an Aug. 1 deadline to pay about $115 million to creditors and interest-rate swap counterparties, unless banks and insurance companies agree to extend the deadline, as they have since April. Earlier this month, a majority of the commission fired its previous advisers and replaced them with **Citigroup Inc.,** Sterne, Agee and Leach Inc. and **Morgan Keegan Inc.**

Bonner, the pension fund official, didn't immediately return a phone call seeking comment.

U.S. Attorney Disputes Misconduct Claims in Arms-Export Case

U.S. Attorney Alice Martin Birmingham said she asked **H. Marshall Jarrett**, chief of the Justice Department's Office of Professional Responsibility, to expedite a probe into allegations of misconduct against her and Assistant U.S. Attorneys David Estes and Angela Dobro.

The claims were made by a defense contractor acquitted in October of failure to comply with the Arms Export

Control Act. Martin, in a telephone interview July 25, disputed claims by defense attorneys that prosecutors said the government ``wanted to put the defendant out of business, whether he was found guilty or not,'' and that his ``Iran-born U.S. citizenship had motivated the prosecution.''

Martin, a 2001 Bush nominee who handled prosecutions of former Alabama Governor Don Siegelman and ex-HealthSouth Corp. Chief Executive Officer Richard Scrushy, said that the complaint by Alexander Latifi and his company, Axion Corp., isn't unlike others she has faced in her seven-year tenure as top prosecutor in the Northern District of Alabama.

``Anyone can file a complaint,'' Martin said. ``There is no evidence to suggest that we were trying to put the defendant out of business. We never said that. We're outraged at all the comments about this being a biased prosecution, and we've asked OPR to expedite their investigation.''

Defense attorney Henry Frohsin of Birmingham's Baker, Donelson, Bearman, Caldwell & Berkowitz, who filed the complaint on July 10, said in an interview July 17 that the government said it wanted to put Latifi out of business, and withheld evidence that would have shown his innocence.

``We believe they have exculpatory evidence,'' said James Barger, of Baker Donelson.

A third defense lawyer, Doreen Edelman of Baker Donelson's Washington office, said the case demonstrates the importance of due diligence in arms-export control cases.

``From the compliance standpoint, in most arms-export cases, the clients plead guilty,'' said Edelman. ``They want the case to go away. But as you see here, you have to make sure you've thought through arms-export due diligence. You have to know the law so that when DOJ comes in and tries to seize your stuff you won't be hoodwinked.''

Latifi and Axion were awarded $363,000 in attorneys' fees and costs by U.S. District Judge Inge Johnson, who found in an April 2 ruling that Latifi was entitled to reimbursement for costs incurred as a result of the government's three-year criminal probe under the Civil Asset Forfeiture Reform Act. Frohsin said the award under CAFRA is ``the first ruling of its kind in Alabama or the Eleventh Circuit.''

The government, which is appealing the award, began its probe of Latifi in 2003, Frohsin said. Latifi was charged in March 2007 with failure to comply with the AECA by sending sensitive military drawings of a tungsten alloy part for the propeller assembly of a Black Hawk helicopter. A bench trial before Johnson ended with acquittals after seven days.

At its peak, Latifi's company had 60 workers and annual revenue of $4 million, according to Frohsin. During the probe, the government froze $2.5 million of Latifi's business and personal assets.

Senate Republicans Block Action on Oil Speculation Legislation

Senate Republicans blocked action July 25 on legislation proposed by the Democrats to curb speculation in energy markets and reduce record oil prices.

The measure, sponsored by Senate Majority Leader **Harry Reid** of Nevada, didn't get the 60 votes required to overcome Republican opposition. The tally was 50 to 43.

Republicans want to be able to debate numerous amendments to the legislation, including expanding offshore drilling for oil and natural gas. Reid said the Republicans were trying to talk the legislation to death. He wanted to move the measure before Congress leaves for its August break, and offered one amendment each for Republicans and Democrats.

``It looks increasingly unlikely that the Senate will move Reid's aggressive anti-speculation measure before the August recess,'' **Christine Tezak**, analyst for Stanford Group Co. in Washington, said in a note.

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Courts

SEC Expands Probe of DRS Insider Trades, Sues Unknown Investor

U.S. regulators expanded a probe into suspected insider trading before **Finmeccanica SpA**'s acquisition of **DRS Technologies Inc.**, claiming unidentified investors made $3.3 million in a pattern of well-timed trades.

The Securities and Exchange Commission filed a lawsuit July 25 against ``one or more'' investors who bought DRS stock options through a Swiss account at UBS AG days before Finmeccanica, Italy's biggest defense contractor, unveiled a $4 billion bid in May. The same traders made bets before **Schneider Electric SA**, the world's biggest maker of circuit breakers, bid for American Power Conversion Corp. in 2006, the SEC said.

The transactions were ``highly profitable and highly suspicious,'' the regulator said in a lawsuit at federal court in Manhattan. ``In both cases, there was no public information available concerning the acquisitions.''

The SEC has stepped up efforts to catch illegal trades placed beyond U.S. borders, targeting investors in locations including the U.K., Switzerland, Pakistan and Hong Kong. In May, the agency accused a machinery engineer in Rome of making more than $2.1 million by trading before Finmeccanica's bid for DRS. It didn't specify how he got the information.

The SEC's civil lawsuit seeks to seize profits and levy unspecified penalties. No companies were accused of wrongdoing.

Richard Goldberg, a spokesman for DRS in Parsippany, New Jersey, declined to comment, and a spokesman for Finmeccanica wasn't available after business hours in Rome.

Schneider Electric spokeswoman Veronique Roquet-Montegon also said she couldn't comment. The company, based near Paris, completed its takeover of American Power in 2007.

Judge Tosses McAfee's Overbilling Claims Against Wilmer Cutler

Wilmer Cutler Pickering Hale & Dorr, the 17th-largest grossing U.S. law firm, won dismissal of charges that its lawyers overbilled **McAfee Inc.**, the second-biggest maker of anti-virus software.

U.S. District Judge **Michael Schneider** in Texas dismissed McAfee's claims on four grounds July 24, including failure to state a legally valid claim, Wilmer Cutler said in a statement.

``It's a good outcome,'' **Bill Lee**, co-managing partner of Wilmer Cutler, also known as WilmerHale, said in an interview.

Wilmer defended McAfee's former Chief Financial Officer **Prabhat Goyal**, who was convicted on 15 counts of securities fraud in May 2007. McAfee objected to $12 million in legal bills from the Washington-based law firm and accused it of fraud, theft, negligence and breach of fiduciary duty in a complaint filed in April in federal court in Sherman, Texas.

The judge also said McAfee shouldn't have sued while the criminal charges were pending, and that the case could be pursued only in Delaware, where Goyal is a party, **Gerson Zweifach**, an attorney who represented Wilmer Cutler, said in an e-mail.

``Our understanding is that the judge didn't rule on the merits of the case, only on the timing,'' McAfee spokesman **Michael Busselen** said in an interview. The Santa Clara, California-based company plans to pursue the litigation and is considering an appeal, he said.

In 2007, Wilmer Cutler had revenue of $944 million, according to the American Lawyer, a trade publication.

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SEC Filings, Commentary, Company News

SemGroup Says Grand Jury Is Demanding Documents on Liquidity

SemGroup Energy Partners LP said a federal grand jury ordered it to turn over documents related to liquidity issues at its bankrupt parent company, oil trader and transporter SemGroup LP.

SemGroup Energy, based in Tulsa, Oklahoma, also said July 24 in a **regulatory filing** that the U.S. Securities and Exchange Commission is investigating the disclosure of those issues at SemGroup LP in connection with a

July 17 press release.

``I have no knowledge of any investigation'' targeting the parent SemGroup LP, spokesman Lance Ignon said in a phone interview. Ignon said the request for SemGroup Energy documents about the press release doesn't mean that SemGroup LP is being investigated.

SemGroup LP, based in Tulsa, Oklahoma, filed for bankruptcy protection July 22, five days after former Chief Executive Officer **Thomas Kivisto** took an administrative leave of absence. His leave came one day after the company recognized $2.4 billion in oil-trading losses, SemGroup LP said in court papers. A trading company controlled by Kivisto, a SemGroup co-founder, owes SemGroup LP $290 million related to those losses, according to court papers.

``This is something creditors will need to consider,'' said **Mark Shinderman**, a lawyer for creditors of SemGroup LP. ``They will need to figure out how they could be impacted by the investigation.''

SemGroup Energy, which isn't in bankruptcy, said in its SEC filing that it was cooperating with the two federal agencies.

Evercore Profit Declines 63 Percent as Investment Fees Drop

Evercore Partners Inc., the investment bank started by former U.S. Deputy Treasury Secretary **Roger Altman**, said second- quarter earnings dropped 63 percent as investment-management revenue tumbled.

Pro-forma profit, which accounts for acquisitions and costs from a share sale, fell to $5.8 million from $15.5 million a year earlier, the New York-based company said in a statement July 24. Earnings missed the average estimate of five analysts surveyed by Bloomberg.

Investment-management revenue slid 77 percent $1.79 million as fees and gains from the firm's private-equity funds declined. Profit was also crimped by employee compensation charges totaling $38.5 million, or about 64 percent of revenue. Keefe, Bruyette & Woods analyst **Lauren Smith** had forecast compensation expenses of $30.6 million for the quarter.

``We are working to expand our investment-management **businesses** to return this segment of the firm to profitability,'' Altman said in the statement.

Comings and Goings

Citigroup's Klein Gets $42.6 Million Under Exit Pact

Citigroup Inc. investment-banking Chairman **Michael Klein**, who's stepping down in September, will get $42.6 million after agreeing not to work for a competitor through October 2009.

Klein gets a $5.5 million award on Aug. 1, plus $21.3 million in March 2009 and $7.5 million in October 2009, the New York-based bank said July 25 in a regulatory filing. He also gets to keep $8.3 million in previously awarded stock, a person briefed on the package said.

Citigroup said last week that Klein, 44, will leave to ``pursue other opportunities'' after working at the third-biggest U.S. bank by market value since 1985. He was co-CEO of the bank's trading and investment-banking division for 10 months before being sidelined from day-to-day management in March by new Chief Executive Officer **Vikram Pandit**.

``This agreement represents the substantial contribution Mr. Klein has made to the company during his 23-year career and so far this year,'' Citigroup spokeswoman **Shannon Bell** said in a statement. The payments also reflect the ``stringent terms'' of the accord barring him from working at a rival, she said.

Citigroup Swaps Board Member Roles, Names Parsons Lead Director

Citigroup Inc., the bank that lost the title of biggest in the U.S. after a $150 billion decline in market value, said **Richard Parsons** will take over as lead director amid a rotation of board members' responsibilities.

Parsons, the former chief executive officer of Time Warner Inc., succeeds Alcoa Inc. Chairman **Alain Belda**, Citigroup said July 24 in a statement. Parsons will also swap his chairmanship of the personnel and compensation committee for Belda's role overseeing nominations and governance.

At Citigroup's annual meeting in April, some shareholders called for the entire **board** to step down. The New York-based bank h posted a second-quarter loss of $2.5 billion, extending a streak of net losses that totals $17.4 billion. The board assignments may do little to mollify Citigroup investors, said **William B. Smith**, CEO of Smith Asset Management in New York.

``They're just moving bodies around, thinking they're going to appease people,'' said Smith, whose firm oversees about $80 million including Citigroup shares. ``This changes nothing.''

Citigroup, the third-biggest U.S. securities firm by market value, was surpassed over the past year by **JPMorgan Chase & Co**. and **Bank of America Corp.**, which posted smaller writedowns from the subprime-mortgage crisis.

The Citigroup board last year dismissed its chairman and CEO, Charles O. ``Chuck'' Prince. The board named **Win Bischoff**, the bank's top executive in Europe, as its new chairman and promoted **Vikram Pandit** to CEO.

Schwab Names Bettinger as CEO, Replacing Firm Founder

Charles Schwab Corp., the largest U.S. online brokerage, named **Walter Bettinger** as chief executive officer, succeeding founder **Charles R. Schwab**, and boosted its quarterly dividend by 20 percent.

Bettinger, 47, currently president of the San Francisco- based **brokerage**, takes over Oct. 1 and joins the board, the company said in a statement.

``I will continue to serve as a very active chairman and look forward to continuing the strong partnership that Walt and I have developed,'' Schwab, 70, said in the statement.

Bettinger's elevation to president in February 2007, positioned him for the top executive post, Sanford Bernstein & Co. analyst **Brad Hintz** said at the time. Bettinger joined the company 13 years ago, after founding Hampton Co., a provider of employee retirement plans.

Charles Schwab founded the company in 1971 and sold it to Bank of America Corp. in 1983. He bought it back in 1987 and took it public. **David Pottruck** succeeded him as CEO in 2003, only to be ousted and replaced by the founder the following year.

International Compliance

Air Berlin Asks Regulator to Examine Timing of Dresdner Trades

Air Berlin Plc, Europe's third-biggest discount airline, asked Germany's markets regulator to examine possible insider trading by Dresdner Bank AG in a dispute about a report published by the bank's equity analysts.

A report by Dresdner Kleinwort Securities was ``highly damaging'' to the Berlin-based carrier's business and had a ``significantly negative'' impact on the stock price, Air Berlin said in a letter addressed to Germany's BaFin and e-mailed to Bloomberg News. The carrier said Dresdner traded an unusually high number of Air Berlin shares in the days before and after the report, dated July 16 and circulated July 17.

Dresdner Kleinwort cut its share-price estimate for Air Berlin to zero in the report, from a previous target of 5.80 euros, citing rising oil prices and high debt. Air Berlin fell 8.7 percent to 3.25 euros in German trading on July 17.

``We are therefore asking to start an investigation to determine how the coincidence between the appearance of the analyst report and the trading activities of Dresdner Bank AG could have happened and whether there has been market manipulation or forbidden insider trading,'' Air Berlin said in the letter.

The letter, signed by Chief Executive Officer **Joachim Hunold** and Chief Financial Officer **Ulf Huettmeyer**, also said Dresdner Kleinwort failed to sufficiently fulfill ``obligations to observe diligence'' when writing the research report.

Banks Face `Significant' Losses on Loans in Europe, S&P Says

Banks face ``significant'' losses as loans turn sour in Europe because of the economic slump, according to

Standard & Poor's.

Declining revenue and increasing bad debts will accelerate downgrades to bank credit ratings, S&P's London-based credit analyst **Michelle Brennan** said in a report. Losses on asset- backed securities will continue to be high, she wrote.

``The prospect of higher loan losses driven by the economic turndown, the hits on capital from market turmoil, and reduced investor appetite for the banking sector are all contributing to weaker financial profiles,'' Brennan wrote.

Banks in Europe have been forced to raise more than $155 billion in capital to replace writedowns and losses totaling $203 million on assets including mortgage-backed debt because of the credit crisis.

``The focus is now shifting to the emerging problems in traditional loan books as the European economies enter into a downturn at varying speeds,'' Brennan said in the report. ``Banks with more aggressive capital policies will look increasingly out of step, have greater problems with investor confidence and face more rating pressures.''

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