Citigroup, UBS slam Nasdaq payback plan in Facebook IPO

August 24 2012, By Andrew Tangel, Los Angeles Times

Citigroup has lined up against Nasdaq's plan to compensate brokerages that lost money in the Facebook IPO.

In a letter filed with the U.S. Securities and Exchange Commission opposing Nasdaq's plan to pay $62 million to brokerages that lost money in the botched initial public offering, Citi criticized Nasdaq's "grossly negligent conduct."

Facebook's May 18 IPO was fraught with technical problems that saddled brokerages with millions in losses. Nasdaq delayed the highly hyped offering, but decided to go through with it despite technical difficulties in its systems.

"In short, Nasdaq's reckless, profit-oriented decision to open trading despite system malfunctions, insufficient failover procedures and a known design flaw resulted in rampant confusion and further system failures, not, as Nasdaq claims, 'active, deep and liquid trading,' " Citi wrote in a letter filed Wednesday.

Brokerages lost an estimated $500 million from the Facebook IPO. Nasdaq's technical mishap prevented traders from knowing whether their buy or sell orders had been executed.

Swiss banking giant UBS has said it lost $357 million from the IPO.

In its own letter to the SEC, UBS criticized Nasdaq's proposal to limit loss claims if brokerages seek compensation through its $62 million "member accommodation program."

That could lead to firms declining to participate in the program if some firms wanted to pursue other legal action.

"This would lead to a perverse outcome, with the firms that suffered the smallest harm participating in the program and those that suffered the greatest harm excluded from the program," UBS wrote.

Not every firm that suffered losses in the Facebook IPO mess opposes Nasdaq's plan.

Chicago-based Citadel, which reportedly lost more than $30 million in the offering, voiced support for Nasdaq's plan.

More information: (c)2012 Los Angeles Times
Visit the Los Angeles Times at www.latimes.com
Distributed by MCT Information Services