

Reports: Facebook faces \$5B FTC fine, largest ever in tech

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In this April 30, 2019, file photo, Facebook CEO Mark Zuckerberg makes the keynote speech at F8, Facebook's developer conference in San Jose, Calif. A Wall Street Journal report says that the FTC has voted this week to approve a fine of about \$5 billion for Facebook over privacy violations. The report Friday, July 12, 2019, cites an unnamed person familiar with the matter. (AP Photo/Tony Avelar, File)

At \$5 billion, the fine the FTC is about to levy on Facebook is by far the largest it's given to a technology company, easily eclipsing the second largest, \$22 million for Google in 2012.

The long-expected punishment, which Facebook is well prepared for, is unlikely to make a dent in the social media giant's deep pockets. But it will also likely saddle the company with additional restrictions and another lengthy stretch of strict scrutiny.

The Wall Street Journal and other news outlets reported Friday that the FTC has voted to fine Facebook for privacy violations and mishandling user data. Most of them cited an unnamed person familiar with the matter.

Facebook and the FTC declined to comment. The 3-2 vote broke along party lines, with Republicans in support and Democrats in opposition to the settlement, according to the reports.

The case now moves to the Justice Department's civil division for review. It's unclear how long the process would take, though it is likely to be approved. A Justice Department spokeswoman declined to comment on the Facebook matter.

For many companies, a \$5 billion fine would be crippling. But Facebook is not most companies. It had nearly \$56 billion in revenue last year. This year, analysts expect around \$69 billion, according to Zacks. As a one-time expense, the company will also be able to exclude the amount from its adjusted earnings results —the profit figure that investors and financial analysts pay attention to.

"This closes a dark chapter and puts it in the rearview mirror with Cambridge Analytica," said Wedbush analyst Daniel Ives. "Investors still had lingering worries that the fine might not be approved. Now, the

Street can breathe a little easier."

Facebook has earmarked \$3 billion for a potential fine and said in April it was anticipating having to pay up to \$5 billion.

But while Wall Street—and likely Facebook executives—may be breathing a little easier, the fine alone has not appeased Facebook critics, including privacy advocates and lawmakers.

"The reported \$5 billion penalty is barely a tap on the wrist, not even a slap," said Senator Richard Blumenthal, a Democrat from Connecticut. "Such a financial punishment for a purposeful, blatant illegality is chump change for a company that makes tens of billions of dollars every year."

He and others questioned whether the FTC will force Facebook to make any meaningful changes to how it handles user data. This might include limits on what information it collects on people and how it targets ads to them. It's currently unclear what measures the settlement includes beyond the fine.



This March 28, 2018, file photo shows the Facebook logo at the company's headquarters in Menlo Park, Calif. A Wall Street Journal report says that the FTC has voted this week to approve a fine of about \$5 billion for Facebook over privacy violations. The report Friday, July 12, 2019, cites an unnamed person familiar with the matter. (AP Photo/Marcio Jose Sanchez, File)

Privacy advocates have been calling on the FTC to come down on Facebook for a decade, but over that time the company's money, power and Washington influence has only increased.

"Privacy regulation in the U.S. is broken. While large after-the-fact fines matter, what is much more important is strong, clear rules to protect consumers," said Nuala O'Connor, president and CEO of the Center for Democracy and Technology. The CDT is pushing for federal online

privacy legislation.

Some have called on the FTC to hold Facebook CEO Mark Zuckerberg personally liable for the privacy violations in some way, but based on the party line vote breakdown, experts said this is not likely.

Marc Rotenberg, president of the nonprofit online privacy advocacy group Electronic Privacy Information Center, said he was "confused" as to why the Democratic commissioners didn't support the settlement and said he suspects, without having seen the actual settlement, that this was due to the Zuckerberg liability question.

"But I thought that was misguided," he said, adding that EPIC instead supports more wholesale limits on how Facebook handles user privacy.

Since the Cambridge Analytica debacle erupted more than a year ago and prompted the FTC investigation, Facebook has vowed to do a better job corralling its users' data. That scandal revealed that a data mining firm affiliated with President Donald Trump's 2016 campaign improperly accessed private information from as many as 87 million Facebook users through a quiz app. At issue was whether Facebook violated a 2011 settlement with the FTC over user privacy.

Other leaky controls have also since come to light. Facebook acknowledged giving big tech companies like Amazon and Yahoo extensive access to users' personal data , in effect exempting them from its usual privacy rules. And it collected call and text logs from phones running Google's Android system in 2015.

Wall Street appeared unfazed at the prospect of the fine. Facebook's shares closed at \$204.87 on Friday and added 24 cents after hours. The stock is up more than 50 percent since the beginning of the year. In fact, Facebook's market value has increased by \$64 billion since its April

earnings report when it announced how much it was expecting to be fined.

Rep. David Cicilline, a Democrat from Rhode Island, said in a statement that the fine gives Facebook "a Christmas present five months early. It's very disappointing that such an enormously powerful company that engaged in such serious misconduct is getting a slap on the wrist. This fine is a fraction of Facebook's annual revenue."

Cicilline leads the House Judiciary subcommittee on antitrust, which is pursuing a bipartisan investigation of the big tech companies' market dominance.

The fine, however, doesn't spell the end of Facebook's troubles. The company faces a slew of other investigations, both in the U.S. and overseas, that could carry their own fines and, more importantly possible limits to its data collection. This includes nearly a dozen by the Irish Data Protection Commissioner, which oversees privacy regulation in the European Union.

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