UBS's forex fumble is a sign of things to come amid currency volatility

UBS was supposed to be the responsible one. The Swiss authorities strong-armed the bank into rescuing its scandal-wracked rival Credit Suisse in 2023. Lately, though, it is UBS itself that has been attempting to contain the fallout of a preventable mishap.

The bank has made about 100 "goodwill payments" to customers who had bought complex foreign exchange derivatives, and who lost out when Donald Trump's tariff announcements rattled the markets earlier this year. Some other customers are pressing ahead with legal complaints. UBS says it has taken the matter seriously and was proactive in reaching out to clients who suffered "unexpected effects".

This is not necessarily a sign that UBS has picked up the wrong sort of expertise from Credit Suisse. Rather, it is a reminder of risks across the sector — and could, if UBS's peers and regulators don't pay attention, foreshadow things to come.

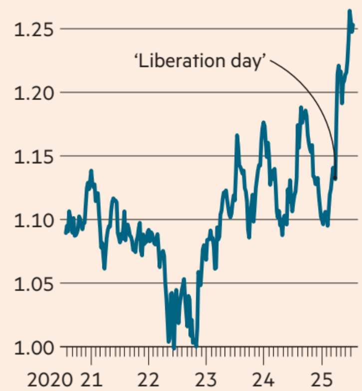
UBS had been selling contracts known as "Range Target Profit Forwards". These allow investors to buy or sell currency at an agreed rate that generates a small profit so long as the market stays within a certain range. But sharp swings in exchange rates can leave customers with huge losses. The recent surge in the Swiss franc was one such event.

The rally in the Swiss currency has been unusual. But the contracts being sold by UBS were similar to those at the centre of a long-running scandal in Spain that has touched banks including Deutsche Bank, Goldman Sachs and BNP Paribas. In the UK, volatility after the Brexit vote led to a jump in complaints about similar products. Banks often end up settling.

The products in question might — in modest amounts — suit a sophisticated business as part of a broader currency hedging programme, or one that has a proxy hedge from its underlying business. Used at scale, however, they are little more than "speculative punts", according to consultancy Vedanta Hedging. UBS reportedly sold them to customers with as little as SFr600,000 in assets, equivalent to around £560,000.

Swiss franc surge

SFr per $



Source: LSEG

At a time when lenders globally are lobbying for looser regulation, including weakening rules around accountability to make it easier for retail investors to take riskier bets, UBS's gaffe should remind regulators that however much institutions try to foster a healthy corporate culture, the temptation to test limits to juice returns will always be there.

Meanwhile for banks — and their investors — this ought to serve as a warning shot. UBS had good reason to identify and remedy the issue briskly, since it is separately battling Swiss regulators who want to toughen the bank's capital requirements. Others might not respond so quickly. As political uncertainty and ensuing currency volatility drag on, it may not be long before similar problems emerge elsewhere.

Getting to net zero will take considerably more than peer pressure

Things fall apart, especially when the things are voluntary. Companies that rushed to sign up to net zero initiatives are now stampeding for the exit.

Shell and other big energy groups have quit a body attempting to set net zero standards for oil and gas companies. This follows in the wake of HSBC and fellow financial services operators deserting the Net-Zero Banking Alliance.

The peer pressure wrought by voluntary initiatives is of little use if