Institutional Investor

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Michael Thrasher

U.S. Pension Funds Among the Winners of the $1 Billion Wells Fargo Settlement

Institutional investors led a class action lawsuit against Wells Fargo that claimed the bank made false and misleading statements.

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Bloomberg/ Angus Mordant

Wells Fargo is still paying for its 2016 fake-accounts scandal. The bank said on Tuesday that it has agreed to pay $1 billion to settle a class-action lawsuit against it led by Handelsbanken — a Swedish bank that has roughly $330 billion in assets and that also manages pension assets — and a group of U.S. pension funds.

The $1 billion settlement was reached after three years of litigation. According to John Browne, a partner at Bernstein Litowitz Berger & Grossmann, a law firm representing some of the plaintiffs, the settlement, if approved, will be among the top six U.S. securities class-action settlements in the past decade and among the top 17 of all time. The settlement brings the total penalties paid by Wells Fargo as a result of its 2016 malfeasance to more than $11.3 billion.

"This is an outstanding result for Wells Fargo investors," Browne said in a statement. "This precedent-setting settlement reflects our clients' commitment to take appropriate action to protect the interests of their stakeholders and the broader investment community."

The group of investors alleged that between February 2, 2018 and March 12, 2020, Wells Fargo "falsely told and misleadingly omitted from investors material information" regarding compliance with its 2018 consent orders from federal regulators, which required the bank to correct serious risk management deficiencies. The investors argued that they were harmed after a series of disclosures, including congressional hearings and reports, revealed that Wells Fargo had misrepresented its compliance with the orders and caused the price of Wells Fargo's stock to fall.

During a two-week span in March 2020, the House Financial Services Committee released a 113-page report detailing its investigation into Wells Fargo, and House Financial Services Committee Chairwoman Maxine Waters requested that the Department of Justice review 2019 testimony by Wells Fargo CEO Timothy Sloan to investigate whether he had lied to Congress. During that period, the stock price fell from $41.40 per share on March 4, 2020 to $27.20 March 12, 2020, erasing tens of billions of dollars from the bank's market cap.

Handelsbanken Fonder, the bank's Stockholm-based mutual fund company, manages approximately $67.5 billion in assets and was invested in Wells Fargo through its investment funds Handelsbanken Global Index Criteria and Handelsbanken USA Index Criteria funds.

Other investors in Wells Fargo included the Public Employees' Retirement System of Mississippi; the State of Rhode Island's Office of the General Treasurer, on behalf of the Employees' Retirement System of Rhode Island; and the Louisiana Sheriffs' Pension & Relief Fund.

"This case further underscores the critical role that institutional investors can play to help protect and maintain trust in the financial markets, which is crucial for global stability and economic growth," Max Berger, a founding partner of Bernstein Litowitz, said in a statement.

The law firm of Cohen Milstein Sellers & Toll served as co-lead counsel. The class action case was filed in the United States District Court for the Southern District of New York.

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