



# The Barclays Imbroglia

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# What happened?

- On Monday 25 Jun 12 Barclays bank agreed to pay \$450M to settle with Commodity futures trading commission, the Justice dept and Financial services authority.
- The issue:
  - Barclays attempted to influence key bench mark interest rates like LIBOR to pad up its bottom line.
  - Also aided attempts by other banks to manipulate Euribor.
- Investigators uncovered dozens of emails wherein traders persuaded their colleagues to submit an artificial rate, just to benefit their trading positions!
- The practice was widely prevalent and bank executives used to help former colleagues and friends

# This is incredible!

- LIBOR is a global benchmark
- It is the very basis of the financial world and rates for a range of financial products are based on LIBOR, like financial derivatives, mortgage loans, credit cards, loans to businesses, even student loans
- It is incredible that such a benchmark be manipulated by a few large banks!
- It is also unbelievable that such benchmarks were just based on data provided by some major banks!
- And such manipulation has been going on for years!
- A US regulator says Barclays was lying "on an almost daily basis" in the information it published to the market!

# How does 'fixing' LIBOR help?

- In two ways
  - Even a tiny fraction of LIBOR can affect the price of trillions of financial derivatives and the bank can benefit a lot
  - If they do report higher than average rate of borrowing it would send a message that the bank is financially not sound.

# Immediate impact

- Barclays's shares fell 10.6% in London on Thursday 28 Jun 12
- Barclays agreed to adopt new measures and controls!
- British bank's association, the body overseeing LIBOR has asked authorities to review how the interbank rate was set
- Manipulations in other such rates like TIBOR (Tokya Interbank offered rate) being investigated
- New reform most likely
- Marcus Agius Chairman resigns
- Diamond and other executives give up their bonuses
- Diamond testifies before Parliament on 4 Jul 12
- Lot more is being demanded...

# The unanswered questions

- Did Diamond know?
- How much did he know?
- How many executives in the bank knew?
  - At least one of the staff had written:
    - “ I will reluctantly and artificially get my Libors in line with the rest of the contributors as requested. I disagree with this approach.. it will not be posting honest prices”
- An independent audit which has been commissioned by the bank will probably throw some light
  - This will review how this manipulation happened and other such 'flawed' practices, how this will affect bank's future and will be used to create a new code of conduct

# Linked to management bonus?

- Shareholders had recently raised the issue of excessive compensation to Diamond and other executives
  - A part of bonus referred to reimbursement for Diamond moving to London
- Diamond cleared a whopping SP 28.3 Million last year !
- In Apr the executives said that they would give up some of the annual bonuses if certain profit goals were not met!
- Was this the process they adopted to get to their profit goals?!

# Robert E Diamond Jr. the CEO speaks

- "Today's resolutions relate to past actions which fell well short of the standards to which Barclays aspires in the conduct of its business.
- "Nothing is more important to me than having a strong culture at Barclays. I am sorry that some people acted in a manner not consistent with our culture and values."
  - If you think you have heard this before, you are right!
    - "What the hedge morphed into violates our own principles"- Jamie Dimon after JP Mogan Chase problem!
- Less than 18 months ago Diamond called for an end to 'Bank bashing' and that they be allowed to get down to the business of making money again.
  - This is also very much like Jamie's 'Storm in a tea cup' dismissal

# What others say?

- Lord Oakeshot ex Liberal Democrat Treasury spokesman:
  - "If Bob Diamond had a scintilla of shame he would resign; If Barclays' Board had an inch of backbones between them they would sack him."
- Prime Minister- David Cameron :
  - " I think the whole management team have got some serious questions to answer. Who was responsible? Who was going to take responsibility? How are they being held accountable?"
- Gary Gensler, Chairman Commodity Futures trading commission
  - "The honesty and integrity of a benchmark like Libor is critical because Libor itself courses through all the facets of borrowing and lending in our economy; Banks must not attempt to influence the rates to protect their reputation or the profitability of their trading positions."

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