

US treasury secretary covered up banks' rigging of global rates

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Documents released Friday by the Federal Reserve Bank of New York implicate Treasury Secretary Timothy Geithner in a cover-up of the rigging of the global benchmark interest rate, the London interbank offered rate, or Libor, by major US and international banks.

An estimated \$800 trillion in financial products are linked to the Libor rate. These include \$10 trillion in mortgages, student loans and credit cards. Some 90 percent of US commercial and mortgage loans are linked to the index.

By manipulating the rate upward, the banks robbed countless millions of people of billions of dollars in inflated loan costs. By manipulating the rate downward, they deprived states, cities, pension funds and retirees with fixed investments of untold billions in revenues from bond holdings.

The documents, requested by a subcommittee of the House of Representatives that is looking into the Libor scandal, show that as early as 2007 Geithner was aware that British-based Barclays and other banks were submitting false estimates of their borrowing costs to the Libor board in order to boost their profits and conceal financial problems. Geithner was president of the New York Fed from 2003 until 2008, when he joined the Obama administration.

The Fed documents, as well as documents released Friday by the Bank of England, also implicate Bank of England Governor Mervyn King and his deputy, Paul Tucker.

They demonstrate that the bank regulators and their respective governments did not inform the public of the rate-rigging and did nothing to stop it. There is good reason to believe, on the contrary, that they approved of the manipulation during the height of the financial crisis of 2007-2009. Deflating the Libor rate helped to conceal the depth and scale of the banking crisis and facilitate the bailout of the global financial elite.

Last month, Barclays agreed to pay a total of \$450 million in fines and admit wrongdoing to settle probes by the US

Department of Justice, the US Commodity Futures and Exchange Commission, and the British Financial Services Authority. The bank, the fourth largest by assets in the world, acknowledged that from 2005 to 2007 derivatives traders worked with employees who submit borrowing estimates to Libor to inflate the bank's borrowing costs in order to help drive up the Libor rate and thereby increase the profits on trades linked to Libor.

From 2007 to 2009, top Barclays executives pressured employees to underestimate the bank's borrowing costs in submissions to Libor in order to mask the bank's financial weakness as the crisis on world financial markets deepened.

Despite Barclays' admission of law-breaking, the Justice Department granted the bank immunity from criminal prosecution, and no executives or traders were named in the settlements with the US and British agencies. There was not even a requirement that Barclays CEO, Robert Diamond, be forced to resign. After initially resisting, he did resign last week under pressure from the Bank of England and the British government.

The \$450 million fine is little more than a wrist slap for the banking giant, amounting to about 1 percent of its 2011 revenues of \$50 billion.

Barclays is only one of more than 20 banks that are under investigation for rigging the Libor rate, as well as its counterparts in Brussels (Euribor) and Tokyo (Tibor). Others ensnared in the scandal include HSBC, the Royal Bank of Scotland, Deutsche Bank, Credit Suisse, UBS, JPMorgan Chase, Citigroup, Bank of America, Bank of Tokyo-Mitsubishi and Sumitomo Mitsui. More settlements along the lines of the Barclays deal are expected in the coming weeks.

The Libor rate, which is set daily in London, is supposed to reflect the average interest rate for loans between major banks. It is overseen by the British Bankers' Association, a private banking trade group. The group is dominated by the British banks that, as part of a panel of 18 international banks, submit

estimates of their interbank borrowing costs every morning to the Libor board. The banks that submit this data to the “self-regulated” Libor board stand to gain or lose many millions on a given day depending on that day’s Libor rate.

This process, highly subject to manipulation and riddled with conflicts of interest, is a prime example of the way in which, even more pervasively in the era of deregulation, the big banks rig the so-called “free market” to plunder the world’s population and increase their profits and the fortunes of their executives and major investors.

The reports issued last month on Barclays by the US and British regulators and the US Justice Department already indicated that the bank’s criminal operations were aided and abetted by the Fed, the Bank of England, the Financial Services Authority and other regulators. Those reports cited emails and other communications in which Barclays employees told the Fed and the Bank of England that the bank’s Libor submissions were dishonest, and that Barclays was simply following the practice of its major competitors.

The documents released Friday supply further evidence of the regulators’ complicity. The New York Fed documents show that it learned about concerns over Libor in the summer of 2007, when a Barclays employee emailed a New York Fed official, saying, “Draw your own conclusions about why people are going for unrealistically low” rates.

Barclays itself sent a report to the New York Fed that September in which it wrote: “Our feeling is that Libors are again becoming rather unrealistic and do not reflect the true cost of borrowing.”

In April 2008, a Barclays’ employee told a New York Fed official, “We know that we’re not posting... an honest” rate. The same employee said, “where I would be able to borrow” in the Libor market, “without question it would be higher than the rate that I’m actually putting in.”

The same day, New York Fed officials wrote in an internal memorandum that banks appeared to be understating the interest rates they would pay. “Our contacts at Libor contributing banks have indicated a tendency to underreport actual borrowing costs,” the officials wrote, “to limit the potential for speculation about the institutions’ liquidity problems.”

On June 1, 2008, Geithner sent a letter to British authorities, including Bank of England Governor King and his deputy, Paul Tucker, suggesting that they should “eliminate incentive to misreport” to the Libor board. King merely passed on Geithner’s recommendations to the British Bankers’

Association, according to documents released by the Bank of England on Friday.

In October of 2008, a Barclays employee told a New York Fed analyst that the Libor interest rate was “rubbish.”

The documents released by the Fed and the Bank of England indicate that Bank of England Deputy Governor Tucker was dissembling when he told a parliamentary committee on July 9 that until the past few weeks, “we were not aware of allegations of dishonesty” in setting the Libor rate.

In a comment in Saturday’s *New York Times*, James B. Stewart laid out some of the specific violations of law committed by the bankers and covered up by US regulators and the Obama administration. He wrote: “Violations of the Commodities Exchange Act, which prohibits manipulation and fraud in the trading of commodities, as well as the Securities Act, which prohibits fraud in the purchase and sale of securities, may be crimes, as is mail and wire fraud, commodities fraud and conspiracy. Moreover, agreements by Barclays traders with others involved in the Libor process are, on their face, conspiracies ‘in restraint of trade,’ which the Sherman Act says are ‘illegal,’ and those who engage in such conspiracies ‘shall be deemed guilty of a felony.’”

On Sunday, the *Times*, citing government sources who spoke on condition of anonymity, reported that the US Justice Department is building criminal cases against several banks and their employees, including traders at Barclays. However, the newspaper indicated that the reported criminal probes are intended to “rattle the banking world and provide a new impetus for financial institutions to settle” along the lines of the Barclays deal. To date, not a single top executive of a major Wall Street bank has been criminally prosecuted in connection with the practices that led to the crash of 2008, including fraudulent marketing of toxic sub-prime loans, or subsequent crimes, such as massive fraud in the foreclosure of homeowners.



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