Allegations of government collusion in Libor fixing raised in UK Parliament

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The declaration by chairman Andrew Tyrie that some of what Barclays chief executive Bob Diamond said in testimony Wednesday to the parliamentary Treasury Committee seemed "implausible" ranks as a masterpiece of understatement.

Diamond was answering before MPs on accusations of organized rigging of the Libor rate by his employees and those of 16 other major banks. Barclays was fined a record £290 million by regulators in Britain and the US last week for manipulating the Libor.

Libor sets the average rate at which major banks lend short-term money to one another and involves critical financial products. It is supposedly regulated by the British Bankers Association, an industry body that collates the banks' reports, and is overseen only indirectly by the Financial Services Authority (FSA).

In three hours before the Treasury Committee, Diamond claimed ignorance of rate-fixing before he was informed of it this month—something Tyrie described as "rather surprising." Another committee member, David Ruffley, told the BBC, "Either [Diamond] was complicit or, frankly, incompetent."

Amid the generally polite exchanges hovers the accusation by Barclays that it was given a green light to fix the rate at the height of an encroaching global banking crisis—in the form of a disputed telephone exchange between the Bank of England's deputy governor, Paul Tucker, and Diamond on October 29, 2008. Diamond's note of a conversation, released Tuesday, states that Tucker told him "senior figures within Whitehall" were concerned about why Barclays was setting its Libor rate at the "top end"—an indication that it was having difficulty borrowing money amid concerns that this could lead to a crisis of confidence.

Libor borrowing rates submitted by Barclays fell following this date.

In any event, there is a mass of evidence, including letters and email exchanges, demonstrating knowledge of Libor manipulation by Barclays and other banks as a matter of routine from as early as 2005, which was brought to the attention of both the BBA and FSA on numerous occasions.

Tucker has asked to give evidence to the Treasury Committee and will appear later.

Diamond reiterated his claim before MPs, said that the "senior figures" had not been named and added that he did not view Tucker's remarks as an instruction to change his bank's rates submissions. However, he said that the conversation when relayed to Barclays' chief operating officer Jerry del Missier, who has also resigned, had been "misunderstood" as being such an instruction.

Under cross-examination Diamond suggested that the "Whitehall figures" supposedly referred to by Tucker were ministers. "What he was trying to tell me is: 'Bob, there are ministers in Whitehall who are hearing that Barclays is always high; that could lead to the impression you are not funding yourself'," he said.

Diamond also named Lady Shriti Vadera during his testimony, an economist who advised Gordon Brown and was then made a minister. She has denied authoring a Treasury note entitled Reducing Libor, and having "a conversation with Paul Tucker about Libor".

Asked on BBC Radio 4 if anyone in the Labour government had suggested to the Bank of England that the Libor rate should be manipulated, she replied, "I can only speak for myself."

The issue was made more explosive by the intervention of Chancellor George Osborne, who directly accused members of Gordon Brown's government of being "clearly involved" in the Libor

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manipulation in an interview with the *Spectator*. He said that several people, including current shadow chancellor Ed Balls, had "questions to be asked of them … They were clearly involved and we just haven't heard the full facts, I don't think, of who knew what when."

Both parties are accusing each other of having much to hide—Labour because it was in government as the actions were taken and the Conservatives because of their own intimate connections with the banking world.

Diamond did not in the end produce evidence directly implicating the Bank of England, the Labour government or the civil service. None of this means that such evidence does not exist. Diamond might just consider it expedient on his part to stifle a crisis that is having a devastating impact on Barclays, in no small part in order to safeguard his own financial future.

Moody's yesterday downgraded Barclays' credit ratings to negative in response to the scandal and the resignation of Diamond, chairman Marcus Agius and del Missier. Diamond himself wants to keep hold of a £22 million severance payment, on top of the £98 million he has earned at Barclays since 2006.

During yesterday's debate in parliament, Osborne repeatedly rebuffed challenges from Labour on his naming of Balls. But he said again that a report on Libor, commissioned by UBS, was seen by Lady Vadera. Diamond had alleged that the senior Whitehall figures involved were ministers and Balls should explain "who were the ministers, who had the conversation, who were the senior figures."

The acrimonious debate centred on whether to go with a parliamentary inquiry led by Tyrie or Labour's proposed judicial inquiry along the lines of the ongoing investigation by Lord Leveson into media ethics relating to the *News of the World* phone-hacking scandal. Tyrie's hard-line pose towards Diamond was an attempt to lend both himself and a parliamentary inquiry some much needed credibility. But as past experience demonstrates, both types of investigation would inevitably end in a cover-up. In the end, the government secured a majority of 104 and Labour dutifully abandoned its boycott threat and agreed to collaborate.

In a measure of the mounting economic crisis that underlies the Libor scandal, yesterday saw the Bank of England make available another £50 billion quantitative easing package—bringing the total so far to £375 billion.

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