Mounting evidence of international collusion in Libor rigging

Robert Stevens
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There is growing evidence of collusion between the Bank of England and international regulators, including the US Federal Reserve, in allowing the rigging of the London interbank offered rate (Libor).

Libor, covering 10 currencies, is the most important benchmark for international interest rates. It is supposed to measure the average cost of short-term loans between major banks. The interest rates for trillions of dollars in home mortgages, student loans and credit cards are pegged to Libor, as are derivatives valued at $350 trillion and eurodollar futures worth $564 trillion.

Last month, London-based Barclays Bank, the fourth largest bank in the world, agreed to pay a total of £290 million ($455 million) for manipulating its daily Libor submissions between 2005 and 2009. It was fined by the US Commodity Futures Trading Commission (CFTC), the US Department of Justice and the UK Financial Services Authority (FSA). The FSA's penalty amounted to £59.5 million—little more than loose change to Barclays.

Bank of England (BoE) Governor Sir Mervyn King maintains that he knew nothing of Barclays' falsification of its Libor submissions until the bank received its fine last month. But emails published by the BoE Friday indicate that as far back as 2007 it was aware of the possible manipulation of Libor.

An internal memo from one official dated 2008 refers to increasing concerns, stating, "Since August 2007, this problem has become more severe... There is a long-standing perception that Libor by virtue of the manner in which it is set is open to distortion."

Another memo, dated May 22, 2008, from a bank employee to Paul Tucker, deputy governor of the BoE, warns of the possibility that Libor rates are being distorted and declares that "it is at least plausible that these [rates] are influenced by commercial interests... In the extreme conditions of the last eight months, banks have been subject to the more powerful incentive of avoiding stigma from being seen to submit high rates reflective of what they are actually paying."

By "extreme conditions" the writer meant the deepening global banking crisis that had already seen the disappearance of the Wall Street investment bank Bear Stearns. Barclays and other banks deliberately underestimated their borrowing costs when submitting data to the Libor board in order to conceal the fact that they had to pay higher interest to lenders due to their weakened financial situation.

The Federal Reserve has claimed that as early as August 28, 2007, more than a year before the collapse of Lehman Brothers, it received emails suggesting that Libor submissions were being set at unrealistically low levels. During June and July 2008, negotiations regarding the governance of Libor were in full swing between the British Bankers' Association (BBA), the private banking trade group that oversees Libor, the Bank of England, the US Federal Reserve and the British Financial Services Authority.

The Federal Reserve made a number of recommendations for closer monitoring of Libor, which were rejected by the BoE. New York Federal Reserve chief Timothy Geithner, now the US treasury secretary, suggested six ways to improve Libor to BoE Governor King. Only minor changes were made.

The emails suggest that the BoE favoured even less oversight than proposed by the BBA, and that the British central bank was adamant that any final regulatory documentation not refer to it as having a governance role over Libor.

The final wording of the Libor review in late 2008 did not refer to the BoE as being in any way responsible for regulating the system, an implicit alibi for the BoE turning a blind eye to what it knew were illegal practises.

The Libor crisis has resulted in more than 20 banks being investigated by financial authorities across North America, Europe and Asia. Evidence pointing to pervasive criminality continues to emerge, including the rigging of Libor's European equivalent, Euribor. At least four of the world's biggest banks—Crédit Agricole, HSBC, Deutsche Bank and Société Générale—are being investigated due to their alleged links to a former Barclays' euroswaps trader Philippe Moryoussef.

On July 18, the *Financial Times* published details of an investigation it is carrying out into the operations of Moryoussef. The newspaper stated, "In its settlement with Barclays, the Commodity Futures Trading Commission, the US futures regulator, described an unnamed trader as having 'orchestrated an effort to align trading strategies among traders at multiple banks … in order to profit from their futures trading positions'."

According to several sources, the unnamed Barclays trader was Moryoussef. The *Financial Times* notes, "His strategy was based on the fixing of three-month swaps pegged to Euribor—the euro-based interbank lending rate set in Brussels by averaging 44 banks' submissions, regulators have said."

Moryoussef, the newspaper continues, "is alleged to have contacted a number of traders whom he knew at other banks, either through previous employment or via professional or personal networks. Regulators are looking at suspected communication with Michael Zrihen at Crédit Agricole, Didier Sander at HSBC and Christian Bittar at Deutsche Bank…"

Another FT article reports that Moryoussef is alleged to have had "daily conversations with traders at the other banks that submitted rates to determine Euribor. In these phone calls, emails or instant messages, the traders allegedly agreed to contact submitters at their respective banks to pressure them into submitting a rate that would benefit their derivatives positions."

At the behest of BoE Governor King, the Libor crisis is to be discussed at a meeting of central bankers in Basel, Switzerland on September 9. As the meeting date was being confirmed, it was reported that Libor could be scrapped entirely.

Last week, Federal Reserve Chairman Ben Bernanke described the Libor system as "fundamentally flawed" at a hearing of the Senate Banking Committee. Insisting that the Fed had moved quickly in 2008 to look into reports that Libor was being manipulated, Bernanke said "we don't know" if US banks were also involved in the rigging of submissions. A number of US banks, including JPMorgan Chase, Bank of America, and Citigroup, are being investigated.

Despite years of ongoing investigations internationally, there has not been a single criminal indictment of anyone involved in the Libor crisis. According to Reuters, a number of banks may be amenable to settling investigations by means of a group agreement. "None of the banks involved now want to be second in line [after Barclays] for fear that they will get similarly hostile treatment from politicians and the public," it reported.

The banks will have noted the 30 percent "discount" that Barclays received on its fine for cooperating with the regulators.

The kid gloves treatment of the bankers is evident in the ongoing hearing of the British parliament's Treasury Select Committee. Last week, Jerry del Missier, former chief operating officer of Barclays, testified to the committee that Bob Diamond, then the CEO of the bank, told him to submit artificially low Libor rates. Del Missier said he believed these requests were based on instructions from the Bank of England.

Asked by the chair of the inquiry about the practise of manipulation of Libor and if he considered it improper, del Missier replied, "No, I don't".

The *Daily Telegraph* commented, "del Missier must feel he emerged relatively unscathed... At one point during del Missier's evidence no less than four of the 12 MPs on the panel had left the room…"

The Treasury Select Committee hearings and a promised full-scale UK parliamentary inquiry will do nothing to bring the perpetrators of criminal activity to book. In power during the period in question was the Labour Party. According to at least one email from Diamond, "senior officials in Whitehall" were concerned that Barclays' Libor submissions were at the top end.

The Conservative Party, now in office, has as much to hide, given its intimate connections to the banking elite. Four of the six Tory MPs on the Treasury Select Committee have had jobs in banking and finance, two of them at Barclays.