

Two years after the Libor scandal

Banks get token fines for rigging global foreign exchange rates

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Two years after the major banks were caught rigging the world's most important interest rate, the London Interbank Offered Rate (Libor), six big banks have agreed to pay more than \$4 billion in fines to international financial regulators for manipulating the multitrillion-dollar foreign exchange market.

The six banks—JPMorgan Chase, Citigroup, Bank of America, UBS, Royal Bank of Scotland and HSBC—agreed to pay a total of \$4.3 billion to the US Commodity Futures Trading Commission (CFTC), the US Office of the Comptroller of the Currency, the British Financial Conduct Authority (FCA), and the Swiss financial regulator Finma.

The extent of the manipulation is enormous. The foreign exchange market accounts for \$5.3 trillion in transactions every day—more than 20 times the size of the global stock and bond markets.

The total amount of the fines is nearly as large as the earlier Libor settlements, in which major banks paid over \$6 billion. The US Justice Department is expected to announce an additional settlement related to the foreign exchange case.

The deal is the latest in a series of multibillion-dollar settlements between major banks and US and international regulators. These agreements settled charges of money laundering, tax evasion, the fraudulent sale of toxic mortgage-backed securities, collusion in Bernard Madoff's Ponzi scheme, the concealment of derivatives losses, the illegal foreclosure of homes, and the manipulation of Libor.

In each of these settlements, the pattern is the same. The banks involved pay a fee, amounting to a relatively small portion of their annual earnings. In exchange, the government regulators drop their charges and wind up their investigations. Neither the top executives nor the banks themselves face criminal charges.

The deals are worked out in behind-the-scenes negotiations between the regulators and the banks, allowing the corporate criminals to get off scot-free and continue their illegal and socially destructive activities. The fines are

looked upon by the banks as a cost of doing business, reminiscent of the bribes routinely paid by mafia dons to the political authorities.

More often than not, top personnel at the regulatory agencies are rewarded for their efforts to shield the banks by landing lucrative jobs at the same banks they were supposedly policing.

Several things emerge from the string of such settlements in the aftermath of the 2008 crash of the world financial system. First, phrases such as “free market” and “open markets” so beloved of capitalists and their apologists are lies.

The global financial markets are massively manipulated by gigantic banks and financial institutions that are driven by the insatiable greed of their top executives and major shareholders. The lives of countless individuals are shattered by the economic fallout from the conspiracies and criminal actions of this layer of financial parasites.

Secondly, governments, regulators and courts around the world are in the pocket of the global financial elite. As retiring US Attorney General Eric Holder told Congress several years ago, the US government considers major Wall Street banks to be too big to prosecute—i.e., to be above the law.

Finally, the scale and pervasiveness of illegal and fraudulent practices demonstrate that the criminality is rooted in the capitalist system itself. Capitalist governments fear that if they were to take effective action to put an end to any one of these practices, the entire financial edifice would collapse.

In 2012, regulators revealed that nearly all of the major US and international banks manipulated Libor, the benchmark global interest rate used to set rates on some \$350 trillion in financial assets, including mortgages, credit cards, student loans and bonds.

According to a statement released Wednesday by the British FCA, the banks were manipulating foreign exchange

benchmarks between 2008 and late 2013—both before and after the Libor scandal erupted.

In their statements announcing the latest deal, regulators said the banks conspired with each other to manipulate foreign exchange rates in order to make billions of dollars, often at their own clients' expense. Using private chat rooms, traders at the banks "disclosed confidential customer order information and trading positions" and altered their own positions to maximize the profits of the banks involved in the conspiracy.

"The FX [foreign exchange] market is one of the largest and most liquid markets in the world," the FCA wrote in its statement. "The spot FX market is a wholesale financial market and spot FX benchmarks (also known as 'fixes') are used to establish the relative value of two currencies. Fixes are used by a wide range of financial and non-financial companies, for example to help value assets or manage currency risk."

"Countless individuals and companies around the world rely on these rates to settle financial contracts," said Aitan Goelman, the US CFTC's director of enforcement.

Together with their announcement of the settlement, regulators released transcripts of instant message communications in which the traders planned out their conspiracies. These transcripts are characterized by profanity and crudeness and littered with spelling mistakes. They reflect the backward and antisocial outlook that pervades the financial elite.

The *Wall Street Journal*, which reviewed the documents, recounted one incident "where it was in HSBC's advantage to have sterling trading lower at the 4 p.m. benchmark calculation time. To paraphrase: HSBC's trader had sterling to sell. He found another trader who had sterling to sell. 'Lets go,' he told his pal. 'Yeah baby,' came the response... 'Hopefullyl a fe wmore get same way and we can team whack it.'"

In considering whether to allow another trader into their conspiracy, one of the traders asked his circle, "Is he gonna protect us? Like we protect each other?"

In announcing the deal, both the US CFTC and the British FCA noted that the banks' manipulation of foreign exchange benchmarks took place even while they were under investigation for manipulating Libor. The CFTC noted that "some of this conduct occurred during the same period that the Banks were on notice that the CFTC and other regulators were investigating attempts by certain banks to manipulate" Libor.

The FCA said the Swiss bank UBS had received internal complaints about foreign exchange manipulation starting in November 2010, but did nothing to prevent these practices.

Despite the fact that British financial regulators issued the

largest fines in the country's history as part of the settlement, officials went out of their way to paint the banks' fraudulent activities as a series of isolated incidents.

"At the end of the day, companies might have lax controls that allow bad things to happen, but it's people that do bad things," said Martin Wheatley, chief executive of the FCA. UK Chancellor George Osborne attributed the fraudulent activity to "corruption by a few."

Executives at the banks welcomed the news of the settlements, and markets largely shrugged off the announcement. "Today's resolutions are an important step in our transformation process and towards closing this industry-wide matter for UBS," said the bank's CEO, Sergio P. Ermotti.

Also Wednesday, the Bank of England announced that it had fired its head currencies dealer, Martin Mallett. According to documents released by the British central bank as a result of an internal investigation, Mallett called major banks' activities in the foreign exchange market "manipulation" and raised concerns about it as early as 2008.

Despite this, the Bank of England released a statement saying that Mallett's dismissal was "unrelated to the FX investigation." It added that there is "no evidence to suggest that any bank official was involved in any unlawful or improper behaviour in the FX market."

On the contrary, the case of Mallett indicates that the Bank of England was aware of the foreign exchange rigging but concealed it and did nothing to stop it. Similarly, it emerged that both the British central bank and top officials at the US Federal Reserve had been aware of the Libor conspiracy for years before its existence was exposed in the financial press.



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