Bob Diamond: Barclays falsified Libor to protect bank during financial crisis

Barclays chief executive Bob Diamond has admitted for the first time that the bank made a conscious decision to falsify Libor rates in order to protect the bank at the height of the financial crisis.

Barclays faced increasing pressure over the future of its chairman and chief executive last night as the Libor scandal saw £3.2bn wiped off the bank's value in the biggest one day fall in its share price for more than three years. Photo: AFP

By Harry Wilson, Banking correspondent

9:21PM BST 28 Jun 2012

The revelation in a letter to the Treasury Select Committee will put increasing pressure on Mr Diamond to reveal whether the decision was taken at board level.

"Even taking account of the abnormal market conditions at the height of the financial crisis, and that the motivation was to protect the bank, not to influence the ultimate rate, I accept that the decision to lower submissions was wrong," he stated.

In the most detailed account so far on how the Libor rates were manipulated, Mr Diamond said fixing of Libor rates was carried out by individual trades and, separately, by the bank itself.

He said traders attempted to influence the rate in order to benefit their own desks' trading positions. The bank made the decision in order to protect shareholders' interests, he said.

The Libor scandal saw £3.2bn wiped off the bank's value on Thursday in the biggest one day fall in its share price for more than three years.

The bank's value fell by 15.5pc the growing public and political outrage led to mounting speculation that its chief executive

Bob Diamond and chairman Marcus Agius could be forced within days to stand down.

Politicians and investors joined the chorus of disapproval of the bank's admission that it attempted to manipulate the Libor borrowing rate for several years.

Investors last night were reported to be demanding a meeting with the bank's senior independent director, Sir Michael Rake. Martin Taylor, a former chief executive of the bank, described the findings against Barclays as showing a "policy of systematic dishonesty".

"It's hard to believe that a policy which seems so systematic was not known to people at or near the top of the bank," added Mr Taylor.

David Cameron said Mr Diamond had "serious questions to answer". The Prime Minister said: "I think the whole management team have got some serious questions to answer. Let them answer those questions first."

Business Secretary Vince Cable warned that, should Mr Diamond or other managers be found to have been involved in the interest rates manipulation, they could be disqualified from working in the finance sector.

"That certainly is a sanction open to us, yes," he said, while claiming that discussions over Mr Diamond's departure were "premature".

In the letter Mr Diamond appeared to try and defend elements of the practice by pointing the finger at other banks.

Addressing the market turbulence at the height of the financial crisis he wrote: "The unwarranted speculation regarding Barclays' liquidity was as a result of its LIBOR submissions being high relative to those of other banks. At the time, Barclays opinion was that those other banks' submissions were too low given market circumstances."

He also said individuals within the bank raised concerns about Libor rates with authorities including the FSA, Bank of England and US Federal Reserve.

"Barclays has co-operated fully with the authorities in their investigations of both of these issues, and the authorities have extensively praised the level and speed of our co-operation," he said.

He also said the bank was carrying out reviews of employee conduct which could lead to paying being clawed back and dismissals.

Leading investor groups held back from directly demanding resignations, but warned they expected Barclays to do more to show it recognised the scale of concerns over the rigging of Libor that has already cost the bank £290m in fines.

The National Association of Pension Funds, which represents 1,200 schemes with assets worth about £800bn, said it expected Barclays to use "clawback" rules to penalise staff involved in the scandal.

Mr Diamond, along with three other Barclays executives, including Chris Lucas, the bank's finance director, have already said they will not take a bonus for this year as a result of the scandal.

However, pressure is growing for a criminal investigation of the bank's actions. George Osborne, in an emergency statement to Parliament, said the Serious Fraud Office was now considering taking further action.

The move was backed by the Association of Corporate Treasurers, the representative body for the finance directors of many of Britain's largest companies, which said the authorities work was "unfinished".

Barclays is unlikely, however, to be the only bank found to have manipulated Libor, which is used to set the rate on loan and derivative contracts worth more than $500 trillion (£320 trillion).

Shares in other major British lenders, including state-backed banks, Lloyds Banking Group and Royal Bank of Scotland, also fell amid fears that they could also be drawn in. A total of 12 banks have disclosed that they are being investigated over Libor rigging.

Also under scrutiny will be Mr Agius's role as chairman of the banking industry's lobby group, the British Bankers' Association. The BBA is responsible for Libor, though the actual figures are compiled by data company Thomson Reuters.

Mr Diamond has been called to appear before the Treasury Select Committee. In his letter to Andrew Tyrie MP he said: "I would be happy to attend such a session. I appreciate that the nature of the settlements disclosed yesterday raises many questions, and I welcome the opportunity to provide answers to those for the Treasury Committee."