Libor rigging 'was institutionalised at major UK bank'

Interest rate rigging was institutionalised at one of Britain's biggest banks, an insider has claimed, with market manipulation openly discussed between managers, staff and customers.

Aug. 2011 - Discount brokerage and money manager Charles Schwab Corp files lawsuits accusing 11 major banks of conspiring to manipulate Libor. Photo: AP

By Philip Aldrick

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Barclays was last week fined £290m for trying to fix the inter-bank lending rate but, in a first person account for *The Daily Telegraph*, a salesman at another major UK bank has claimed that "everyone knew" and "everyone was doing it".

At the insider's bank, around 30 people – including managers and treasurers – attended an internal meeting in early 2008 where the policy of submitting artificially low Libor rates was explained in detail and fully justified.

Documents released alongside Barclays' settlement last week also showed that UK regulators were aware that banks had been understating Libor but did not act, painting an endemic picture of corruption across the industry.

According to the bank insider, who asked to remain anonymous, manipulating the inter-bank rate had become so widespread that there was a technical phrase to describe it – the "dislocation of Libor from itself".

The bank even dispatched sales teams to customers to explain that borrowing rates were rising because the real rate of Libor was higher than the stated rate.

According to the Barclays' documents, regulators were informed about systemic understatement of Libor in late 2007 and early 2008 but turned a blind eye.

The FSA's own documents reveal that on April 17, 2008, a senior Barclays manager told the watchdog "that Barclays had been understating its Libor submissions", admitting that the bank was not "clean clean, but clean in principle".

Barclays explained that it was concerned other banks were fixing the rate and its honesty was making it vulnerable. The FSA, led by chief executive Hector Sants, defended its lack of action by arguing that Barclays had not properly disclosed the degree of its own Libor manipulation at the time.

In a similar conversation with the British Bankers' Association (BBA), whose then chairman was the current trade minister Lord Green, the manager "informed the BBA that [Barclays] had not been reporting accurately, although he noted that Barclays was not the worst offender of the panel bank members".

According to the Commodity Futures Trading Commission, the BBA representative appeared to accept that it was a widespread problem, responding that "no one's clean-clean".

Barclays had first told the BBA in November 2007 that "banks, including Barclays, were submitting rates that were too low", according to the CFTC. The senior manager "encouraged the BBA to react and be heavy handed, suggesting the sanction that banks involved in such conduct be removed from the panel".

However, the BBA, the industry trade body that is responsible for compiling Libor, contacted other banks in a group email but took no further action.

The Bank of England was caught up in the scandal in October 2008, when Paul Tucker, deputy Governor, spoke to Bob Diamond, Barclays chief executive.

Mr Tucker raised the subject of "the external perceptions of Barclays' Libor submissions", which Barclays misunderstood to mean that staff should "under an instruction from the Bank... reduce Barclays' Libor submissions".

A Bank spokesman said: "It is nonsense to suggest that the Bank of England was aware of any impropriety in the setting of Libor. If we had been aware of attempts to manipulate Libor we would have treated them very seriously."