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After Fred the Shred, dark days threaten to haunt RBS once more; INSIDE THE SCANDAL

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Body

FRED Goodwin had become the nation's favourite punchbag in October 2008 as the Royal Bank of Scotland came close to collapse.

When he finally resigned as chief executive following a £24 billion loss, the banking giant, it seemed, had moved on from its darkest days of mismanagement.

But behind the scenes, it is now been alleged, senior managers and traders were colluding to rig the financial markets in what has the potential to become an even bigger scandal for RBS, and for its high street counterparts.

Between 2007 and 2011, RBS allegedly joined Barclays, Lloyds and HSBC in deliberately distorting financial data used to set interest rates on millions of loans and other transactions. Barclays has already been fined a record £290million by regulators in Britain and the US for making false submissions to help set the London Interbank Offered Rate (Libor), the interest rate banks pay when they lend money to each other. It has now transpired, however, that Barclays might well not be alone.

Tan Chi Min, a former head of delta trading for RBS's global banking and markets division in Singapore, has alleged in court papers that RBS managers "condoned collusion" between its staff to maximise profits by helping set the Libor rate at artificially high or low levels.

He names five staff members who he claims made requests for the Libor rate to be altered, and three senior managers who he says knew what was going on.

Investigators believe that before the summer of 2007, the practice was driven by traders wanting to maximise the profits they could make and the bonuses they would take home. But after the credit crunch, when borrowing became more dif-ficult, managers became involved, keen to protect the share price of the bank.

According to court papers in a class action being taken in the US against 16 banks - including RBS, Barclays, HSBC and Lloyds - the banks "surreptitiously bilked investors of their rightful rates of return on their investments, reaping hundreds of millions, if not billions of dollars in ill-gotten gains".

The Libor rate is calculated from information supplied by 15 of the world's biggest banks. To avoid any danger of the market being manipulated, the bank's rate-setters are required to report accurately the interest they would be charged if it borrowed funds from another bank overnight in various currencies.

According to Mr Tan, however, manipulating the Libor rate was so ingrained in RBS's culture that Paul White, RBS's principal rate setter for Yen Libor (who has since been dismissed), and MrTan's trading team in London were "specifically seated together" in the London office to "facilitate the sharing of information". MrWhite could not be reached for comment last night.

With an estimated £290trillion worth of contracts depending on Libor traded every six months on the world's financial markets, even a tiny variation in the Libor rate can make huge differences to a bank's profits and losses.

In 2009, for example, Citibank reported it would make $936million extra if rates fell by 0.25 per cent over the next year and $1.935billion if they fell 1 per cent instantaneously.

Comparable losses would be chalked up if rates rose.

MrTan, who worked for RBS from August 2006 to November 2011, was sacked for gross misconduct, but claims RBS made him a "scapegoat" for malpractice condoned by managers. He names a number of others who he says were doing the same thing.

Mr Tan, who is suing for wrongful dismissal, said the practice "was known to other members of [RBS]'s senior management".

RBS has admitted Mr Tan tried to improperly influence RBS rate-setters from 2007 to 2011 to submit Libor rates at levels that would benefit him and that at least one other RBS employee had also engaged in similar conduct.

Mr Tan, however, claims he could not have influenced the rate on his own.

RBS denies Mr Tan's claims and said it was confident of mounting a successful defence.

Mr Tan is not alone in making accusations against RBS. In Canada, an unnamed trader from a bank co-operating with an investigation into Libor fixing described how he would collude with RBS contacts.

"Trader A… gave instructions for the RBS trader to get RBS to make Yen Libor submissions consistent with Trader A's wishes," according to court papers filed in the US that detail the investigation. "The RBS trader acknowledged these communications and confirmed that he would follow through." Trader A did the same with a second RBS trader, according to the US case, and had a similar arrangement with traders at HSBC, Deutsche Bank, JP Morgan and Citibank.

Among Trader A's contacts, according to investigators in Canada, were a sterling trader at RBS in London and a Londonbased derivatives trader at RBS.

RBS has said that some of its staff were being investigated in these various probes, but that it had substantial defences to any claims that may arise as a result.

Barclays, meanwhile, has admitted that its traders asked its Libor rate-setters to alter the rates to "benefit the traders' trading positions", according to a version of events agreed between the bank and the US Department of Justice.

The submitters "agreed to accommodate the swaps traders' requests for favourable submissions on numerous occasions".

The most frenetic period of activity at Barclays was between June 2005 and September 2007, when Barclays dollar swaps traders in New York and London asked their colleagues on the London money markets desk to fiddle the numbers.

On Feb 22, 2006, a Barclays dollar swaps trader in London, known as Trader 1, sent an email to a Barclays dollar Libor rate-setter at 9.42am, saying: "We're getting killed on our 3 month resets, we need them to be up this week before we roll out of our positions."

The rate-setter replied: "Happy to help."

The following month, at 7.48am on March 10, the same trader emailed another ratesetter saying: "My NY (colleagues) were screaming at me about an unchanged 3 month Libor. As always, and help wd be greatly appreciated. What do you think you'll go for 3m?" The rate-setter replied: "I am going 90 altho 91 is what I should be posting."

Between January 2006 and August 2007, Barclays traders made 111 requests for alterations to the Libor rate.

Unexpected changes in the bank's Libor submissions followed 70 per cent of the time.

The traders also communicated with friends at other banks as part of a "co-ordinated effort" to influence the Libor rate, Barclays has admitted.

As Barclays traders moved to other jobs in the City, they became part of a spider's web of contacts intent on working together to manipulate the Libor rate. Trader 1, for instance, had left Barclays by August 2006, but continued to try to influence the Libor rate by contacting his old colleagues at the bank.

On Oct 26, 2006, at 7.12am, Trader 1 messaged a Barclays trader to say: "Where do u think 3m Libor will be today?" The Barclays trader replied: "[Rate-setter] thinks 38."

Trader 1 said: "Wow… unchanged!!!?!!... if it comes in unchanged I'm a dead man."

The second trader told him: "I'll have a chat." Later that day, Trader 1 wrote: "Dude I owe you big time! Come over one day after work and I'm opening a bottle of Bollinger!" On the same day, he wrote to yet another trader: "Please don't make any noise about the 3 month fixing. This can backfire against us." Personal greed was the original motivation for the traders, but by August 2007, following the credit crunch, employees were under-reporting dollar Libor rates under pressure from managers, internal Barclays communications showed.

On Nov 29, 2007, a Barclays manager became so concerned about the routine misreporting of the true Libor rates that they contacted the British Bankers' Association to say banks were setting their rates too low because "banks are afraid to stick their heads above the parapet and post higher numbers because of what happened when [Barclays] did. You get shot at".

On March 5, 2008, after the Financial Services Authority asked Barclays what it was paying for funding in certain currencies, a manager and a submitter discussed the company's response.

The manager said they did not want to disclose that Barclays was borrowing dollars "way over Libor" and the submitter agreed that if they gave "the honest truth" it might open "a can of worms".

Graphic

Paul White, RBS's former principal rate setter for Yen Libor, has been implicated in the rate-fixing scandal. Right: Fred Goodwin, the bank's former chief executive

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