Interest rate was rigged by Barclays

Mortgage holders, credit card users and small businesses may have been charged too much for their loans after one of Britain's biggest banks admitted systematically rigging financial markets.

Bob Diamond, the Barclays chief executive, said he will give up his multi-million-pound bonus over the scandal but faced calls to resign Photo: REUTERS

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Barclays was fined a record £290 million for repeatedly distorting basic financial data which are used to set interest rates on millions of loans and other transactions around the world.

Bob Diamond, the Barclays chief executive, said he will give up his multi-million-pound bonus over the scandal but faced calls to resign amid claims that his bank's actions posed a threat to the global market system.

As MPs suggested that a criminal inquiry should be held, financial regulators warned that other major British banks may also have been involved in attempts to manipulate data about interest rates. Up to 40 global banks face being named and shamed as part of the investigation.

The scandal relates to the London Interbank Offered Rate (Libor), the interest rate that banks pay on money they borrow from one another.

The Libor rate is one of the basic pieces of information on which trillions of pounds of financial transactions are based. It helps determine the interest rate that is applied to loans, including some mortgages, credit cards and business loans.

Libor is calculated on information about rates supplied by 15 of the world's biggest banks, which are under strict obligations to provide accurate figures.

British and American regulators yesterday concluded that, between 2005 and 2009, Barclays traders and managers repeatedly made "false reports" in order to push Libor and other interest rate measures higher or lower than its true rate. The manipulations helped increase traders' profits and protected Barclays' reputation. They also raise the prospect of consumers and businesses paying the wrong rate of interest.

Market rules dictate that bank staff who report interest rates for calculating Libor are supposed to be isolated from traders who have a financial interest in the rates.

The Financial Services Authority and the US Commodity Futures Trading Commission found that Barclays staff systematically broke those rules.

Emails sent by Barclays traders to staff submitting Libor data showed their demands for artificially high rates. "I was hoping we could set the 1-month and 3-month Libors as high as possible," wrote one trader in 2006.

Another, sent later that year, told a data-submitter to "go crazy with raising 3-month Libor". Replies showed that Barclays rate-submitters readily complied. "Done…for you big boy," wrote one.

An external trader emailed a Barclays trader to state: "If it [Libor] comes in unchanged I'm a dead man". The Barclays trader said he would "have a chat" and the submission was later lowered.

The external trader thanked the Barclays trader and added: "Dude. I owe you big time! Come over one day after work and I'm opening a bottle of Bollinger."

From 2005 until the summer of 2007, Barclays' attempted manipulation was driven by traders trying to increase profits on their own deals using complex financial instruments. But when the credit crunch began in August 2007, regulators found, the bank's senior management began to direct the false reporting activities.

During the first years of the crisis, Barclays frequently paid higher interest rates than other banks due to concerns about its financial position. Regulators found that in order to protect Barclays' reputation, the bank's senior management instructed staff to make artificially low Libor submissions "routinely".

Lord Oakeshott, a former Liberal Democrat Treasury spokesman, described the bank as "a casino that was rigging the wheels and loading the dice". He added: "If Bob Diamond had a scintilla of shame, he would resign."

Andrew Tyrie, the chairman of the Commons Treasury select committee, said Barclays had put at risk the integrity of the financial markets, with potentially serious consequences for British consumers. “This is tantamount to lying,” he said. “This could have affected hundreds of thousands of homeowners by forcing them to pay more for their mortgages.” Ray Boulger, of John Charcol, a mortgage broker, estimated that about 250,000 mortgage customers have loans with rates linked to Libor.

Mark Harris, of Savills Private Finance, said that among the individuals most likely to have been affected would be buy-to-let investors and those buying very expensive homes. Chris Leslie, a Labour shadow Treasury spokesman, suggested that a criminal investigation may be necessary.

Barclays said that the fines related to actions in the past which fell “well short” of its standards. Mr Diamond, who was paid more than £17million last year, said: “I am sorry that some people acted in a manner not consistent with our culture and values.” The bank has disciplined several staff and the settlement is expected to see more employees leave.