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Barclays fined £290m as bid to manipulate interest rates is exposed

Bob Diamond forfeits bonus over bank's 'serious, widespread' breaches of City rules relating to the Libor and Euribor rates

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The boss of Barclays, Bob Diamond, is under mounting pressure after the bank was hit with fines of £290m for its "serious, widespread" role in trying to manipulate the price of crucial interest rates that affect the cost of borrowing for millions of customers around the world.

There were calls for Diamond to step down after the Financial Services Authority slapped a £59.5m fine on the bank - the largest ever levied by the City regulator - forcing him and other top executives to forgo any bonuses for 2012.

The FSA - and authorities in the US which hit Barclays with penalties of £230m - described repeated breaches of rules dating back to 2005. They involved "a significant number of employees", including senior managers, and called into question the integrity of the markets.

The FSA published embarrassing email exchanges in which Barclays staff were offered bottles of Bollinger champagne as payment for favours or their names printed in "golden letters". The emails demonstrated how traders manipulated the price of key interest rates in an attempt to make greater profits.

The regulators, including the US department of justice and the Commodity Futures Trading Commission, said Barclays had also taken steps to fix the rates as the bank was concerned about its public image during the 2008 financial crisis.

Andrew Tyrie, the MP who chairs the Treasury select committee, described Barclays' activities as "inexcusable". The shadow Treasury minister Chris Leslie asked whether there should be a criminal investigation.

The fines come as Diamond - who has earned almost £100m from Barclays since 2006 and was at the time running the division where the misconduct took place - has been trumpeting the bank's commitment to acting as a "good citizen", despite the bank's run-in with HM Revenue & Customs over a £500m tax avoidance scheme and a row with shareholders over his £17m pay packet this year.

Barclays said Diamond and his three close lieutenants - the head of investment banking, Rich Ricci; chief operating officer, Jerry del Missier, and finance director, Chris Lucas - would forfeit their bonuses this year as a result of the attempted manipulation. But they will still be in line for multi-million pound share payouts.

The penalties levied on Barclays are part of an international investigation involving a number of banks - including RBS and Lloyds Banking Group - into interest rates known as the London interbank offered rate (Libor) and the Euro interbank offered rate (Euribor). The two key rates play a key role in determining the cost of borrowing for households and companies.

Politicians rounded on Barclays. Tyrie said: "This was a serious breach. I am very concerned about it. The price-setting mechanism of Libor is crucial to the integrity of the markets. This appears to have been put at risk. From the information I have, it looks inexcusable."

Liberal Democrat MP Lord Oakeshott said Diamond should quit. "This does terrible damage to Barclays' own reputation, the integrity of the city of London and many people's waning trust in capitalism and free markets ... He's got to go and Barclays must be broken up - it's far too dangerous in these dangerous times."

In a statement Diamond said: "Nothing is more important to me than having a strong culture at Barclays. I am sorry that some people acted in a manner not consistent with our culture and values." Tracey McDermott, acting director of enforcement and financial crime at the FSA, said Barclays' misconduct was "serious, widespread and extended over a number of years". She said that Barclays traders' attempts to manipulate interest rates "to try to benefit trading positions is wholly unacceptable. "This was possible because Barclays failed to ensure it had proper controls in place. Barclays' behaviour threatened the integrity of the rates with the risk of serious harm to other market participants"

The individuals at Barclays, known as submitters, who were responsible for setting the interest rates emailed responses to traders such as "always happy to help," "for you, anything," or "done ... for you big boy," after submitting rates that were incorrect.

Lord Myners, the former City minister under the Labour government, told Newsnight: "This behaviour will only change if people face the prospect of criminal charges."

David Meister, the CFTC's director of enforcement, said the investigation had been launched to "protect the markets and the public from such illegal conduct." He added: "Today's action demonstrates that we will bring the full force of our authority to bear as we carry out that mission".

Libor is used as a benchmark for setting financial contracts and interest rates around the world. It is overseen by the British Bankers' Association. Banks are asked what rate they expect to pay to borrow from each other for periods of time ranging from overnight to 12 months in currencies including sterling, dollars, euros, yen and Swiss francs. The banks responses are then averaged to come up with a single Libor figure.

The FSA found that Barclays had been making submissions to the process that were intended to allow the bank to make profits when its traders speculated on interest rates. The bank also reduced the rates it submitted during the financial crisis because Barclays' managers thought the true, higher rates were being interpreted by the media as evidence that the bank was short of cash.

Barclays said it had received credit from the authorties for "extensive co-operation, as well as the actions it has taken to enhance its systems and controls".

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- Executive pay and bonuses
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- Regulators
- Financial sector
- news