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Will we see City bankers behind bars?; Barclays staff behind interest rate-fixing scandal may face fraud charges as Parliament holds inquiry

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Body

The bankers at the heart of the Barclays interest rate-rigging scandal could be prosecuted for fraud, an offence that usually carries a prison sentence, it was disclosed yesterday.

The Serious Fraud Office (SFO) said it was investigating whether it was possible to bring criminal charges against executives who manipulated the London Interbank Offered Rate (Libor) and would decide within weeks whether to proceed.

Shortly after the SFO's announcement, a political row broke out over David Cameron's decision to reject calls for a Leveson-style inquiry into the episode in favour of a more rapid parliamentary investigation into the banking system.

With growing demands for the Barclays chief executive, Bob Diamond, to resign, the Business Secretary, Vince Cable, protested that senior figures in the banking industry "still don't get it". He said the revelations about the manipulation of the Libor system struck many as "bordering on the criminal".

The SFO said it was "considering whether it is both appropriate and possible to bring criminal prosecutions" over the case. It added that the issues were complex and it hoped to reach a conclusion within a month.

The Chancellor, George Osborne, welcomed the SFO's move, telling MPs: "Fraud is a crime in ordinary business - why shouldn't it be so in banking?" He said the SFO was studying whether false accounting charges could be brought under the Fraud Act, adding: "We would encourage them to use every legal option available to them."

The former Metropolitan Police commissioner, Lord Blair of Boughton, urged the SFO to launch a criminal investigation. He told the Lords: "If this isn't conspiracy to defraud, then I've never seen one - and I've seen a few."

The Government is committed to reform of Libor and similar markets to ensure that bankers who exploit them in future can be prosecuted. But it could not legislate to allow retrospective prosecutions and the SFO's move represents the final chance of bringing criminal charges against people implicated in the Libor scandal.

Senior figures from Barclays will be cross-examined by the Commons Treasury Committee this week about what they knew of the affair - and how they allowed it to develop. The bank's chairman, Marcus Agius, resigned yesterday and announced a review into its "flawed" practices, but Mr Diamond was still refusing to step down. Ed

Miliband, the Labour leader, called for him to resign, while Nick Clegg, the Deputy Prime Minister, said: "I do think the buck stops at the top."

Mr Osborne said a joint committee of MPs and peers would investigate the "transparency, conflicts of interest, culture and the professional standards" in the banking industry. It would have the power to question under oath senior politicians - potentially including former Chancellors Kenneth Clarke, Gordon Brown and Alistair Darling - as well as senior civil servants. Sources said it would carry parliamentary privilege and not affect any criminal prosecutions that were under way. Changes the committee recommended could be incorporated in a planned banking Bill to split lenders' retail banking units from their riskier investment banks. It has been given a deadline to submit its conclusions by the end of the year.

The Chancellor rejected Labour's calls for a judge-led inquiry similar to Lord Justice Leveson's investigation into press standards. He said: "I don't think a long, costly public inquiry is the right answer; it would take months to set up and years to report. We know what went wrong and we can't wait until 2015 or 2016 to fix it."

But Mr Miliband disagreed. "The bankers are going to be saying, 'Don't over-regulate', and of course we have to be careful, but I think we have had enough now of sticking-plaster solutions."

Ed Balls, the shadow Chancellor, added: "Just as in phone hacking or the Iraq war, so in banking, only with an independent, forensic and open public inquiry can we rebuild trust."

The Tory MP Andrew Tyrie, who will chair the joint committee, dismissed claims that it would degenerate into mud-slinging. "I won't countenance a partisan inquiry and I wouldn't be prepared to chair one either. I do believe that Parliament, both MPs and the [Lords], have something to contribute to clear this mess up but they can't do it all on their own.

"By normal standards, the Libor scandal ... is shocking. It has corroded trust in the UK financial services industry and it's a shameful affair."

Around the world: the investigations

Britain

* Serious Fraud Office - considering whether it is "appropriate or possible" to bring criminal charges.

* Parliament - review of the entire banking sector by Treasury Select Committee chairman Andrew Tyrie.

* Financial Services Authority - the City regulator hit Barclays last week with a record £60m fine and its investigations continue into other banks, including tax-payer-owned Royal Bank of Scotland.

* Barclays - the embattled bank has pledged an audit of its business practices by an independent third party whose role will include the drawing up of a code of conduct.

United States

* Securities and Exchange Commission - the main American regulator is conducting its own rate-fixing inquiry.

* Commodity Futures Trading Commission - the body which last week fined Barclays $200m, its largest-ever penalty, is continuing its investigation into other banks.

* Department of Justice - has formally acknowledged that a criminal inquiry is ongoing into the US operations of Barclays and other banks.

Switzerland

* Federal Competition Commission - investigating 12 American, European and Japanese banks, including HSBC and RBS.

Singapore

* Monetary Authority of Singapore - conducting an inquiry into allegations of improper bank-rate fixing.

Japan

* Financial Supervisory Agency - ordered Citibank and UBS to suspend some transactions after it was found staff tried to manipulate the Tokyo Inter-Bank Offered Rate (Tibor).

Canada

* Competition Bureau - looking into the activities of Deutsche Bank, JP Morgan and others in co-operation with other foreign regulators.

The law: how they could be prosecuted

* The Financial Services Authority does not have the power to take action under the criminal law - unlike its US counterpart - for manipulating the market. The gap is set to be plugged by the Government.

* The Serious Fraud Office is examining whether an offence has been committed in this case under the Fraud Act 2006. One possibility is that criminal charges could be brought for conspiracy to defraud. Penalties are left to the judge's discretion, but usually carry a prison sentence.

* Another possibility is an offence of false accounting under the Theft Act 1968, covering "furnishing information ... [which] may be misleading, false or deceptive". It carries a maximum sentence of seven years.

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