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BANKING SCANDAL:

FRAUD OFFICE CALLED IN

OVER BARCLAYS RATE-RIGGING

by

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SERIOUS Fraud Office investigators were in talks with the City watchdog last night over the Barclays interest rate-rigging scandal as politicians condemned the culture of greed at the bank.

- **Politicians hit out at culture of greed at Barclays bank**
- **Increasing calls for chief executive Bob Diamond to step down**
- **David Cameron stresses need for those responsible to be identified**

Chancellor George Osborne revealed the SFO was holding discussions with the Financial Services Authority (FSA), raising the possibility of criminal proceedings being taken against bankers who manipulated interest rates to increase trading profits.

Anger over the scandal – which is likely to have seen mortgage holders, credit card users and businesses charged too much for their loans – increased the clamour for the bank's chief executive, Bob Diamond, to quit.

Last night, Barclays shares dropped 15.5 per cent – wiping £3 billion from its market value – as investors ditched the stock amid fears that people would claim damages against the bank.

The welter of damaging publicity that has engulfed the banking sector is set to continue today when the FSA publishes evidence suggesting that some institutions mis-sold complex financial products, called interest-rate swaps, to small businesses. Mr Osborne said the rate-rigging scandal, which was first exposed on Wednesday, was "a shocking indictment of the culture of banks like Barclays in the run-up to the financial crisis".

The Chancellor said that Barclays executives must "pay the price" for the manipulation of the London Inter-Bank Offered Rate (Libor) and Euribor, the interest rates that banks pay on the money they borrow from each other.

Libor and Euribor are two of the most important interest rates in the global financial markets and directly influence the value of trillions of dollars of financial deals between banks and other institutions.

They can also affect lending rates to the public and can, for example, affect some mortgage deals.

Earlier this week British and US regulators found that Barclays traders repeatedly made false reports between 2005 and 2009 in order to push Libor and other interest rate measures higher or lower than their true rate.

This increased traders' profits and protected Barclays' reputation at a time when the banking sector was in crisis. Mr Diamond – who was in charge of Barclays Capital at the time the breaches occurred – apologised and said nothing was more important to him than "having a strong culture at Barclays". He has said he will forgo his bonus this year.

Senior executives Jerry del Missier, Rich Ricci and chief financial officer Chris Lucas will also waive their 2012 bonuses.

A trail of e-mails, instant messages and phone transcripts disclosed by the FSA showed how traders requested Barclays make changes to the Libor rate to boost their profits, while promising each other bottles of Bollinger champagne.

Mr Osborne said the traders' communications "read like an epitaph to an age of irresponsibility". He added that ordinary people had paid a "very heavy price" because of the bank's behaviour and executives must now answer for their greed.

Speaking the day after Barclays was fined £290 million by the FSA and US regulators, Mr Osborne told MPs that more financial institutions are likely to be dragged into the scandal, saying Barclays was "not alone" in efforts to rig a key interest rate benchmark. Royal Bank of Scotland, HSBC, UBS and Citigroup are also being investigated.

The Chancellor outlined a series of measures that the UK government was considering in an attempt to prevent a repetition of the behaviour, including the possibility of applying criminal sanctions to directors of failed banks "where there is proven criminal negligence".

During a visit to a police call centre in south London yesterday, Met Commissioner Bernard Hogan-Howe was asked whether he would launch an investigation into Barclays and replied: "If there were any complaints I'm sure we'd consider it."

Mr Osborne also said the law many be changed to allow the FSA to prosecute traders under criminal law for manipulating Libor. Mr Osborne said: "Through 2005, 2006 and early 2007 we see evidence of systematic greed at the expense of financial integrity and stability."

Fines paid to the FSA are used to reduce the levy paid by other institutions, but Mr Osborne said he was considering changes to ensure penalties "of this nature go to help the taxpaying public not the financial industry".

Officials would examine whether the move could be backdated to cover the fine imposed on Barclays.

Mr Osborne said: "It is clear that what happened in Barclays, and potentially other banks, was completely unacceptable, was symptomatic of a financial system that elevated greed above all other concerns and brought our economy to its knees."

He said that "a number" of individuals were under investigation by the FSA and added that "this number is expected to increase". The SFO is aware of the matter and is in talks with the FSA, he confirmed.

The Chancellor said Mr Diamond had "some very serious questions to answer". He said: "What did he [Mr Diamond] know and when did he know it? Who in the Barclays management was involved and who, therefore, should pay the price?"

The Treasury select committee has asked Mr Diamond to appear and Mr Osborne said: “We all want to hear his answers.”

Earlier, Prime Minister David Cameron described the situation as an “extremely serious scandal”. He added: “They’ve had a very large fine and quite rightly. But frankly the Barclays management team have some big questions to answer.

“How did this happen? Who was responsible? Who’s going to be held accountable for it? These are issues they need to determine and determine quite rapidly.”

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LIBOR SCANDAL HITS WHERE IT HURTS

AS BILLIONS WIPED OFF BANK SHARES

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by

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BANKING shares were hammered yesterday as politicians weighed into the Libor-fixing scandal, raising the spectre of further regulation on the sector and threatening harsher punishments for the wrongdoers.

Barclays, which was fined £290 million by US and UK regulators after being caught trying to rig the interest rate at which banks lend to each other, saw nearly £4 billion wiped off its market value as its shares plunged by 15.5 per cent.

Royal Bank of Scotland was not far behind, shedding 11.5 per cent of its worth as Chancellor George Osborne confirmed it was among other banks being investigated.

Speculation mounted that any banks involved could face civil lawsuits claiming billions of pounds in compensation from institutions that lent money using the Libor rate as a basis.

HSBC, Lloyds, UBS and Citigroup are among others suspected of being involved in fixing the London and European inter-bank lending rate in the years running up to the financial crisis.

Investors held their nerve when news of Barclays' fines emerged on Wednesday, but their resolve crumbled yesterday as the Serious Fraud Office was called in to investigate further and ministers ratcheted up their rhetoric.

Michael Hewson, senior analyst at CMC Markets, said: "The likelihood is that other banks could well become embroiled in the controversy given that Barclays would have been unlikely to pull off anything like this on their own.

"This has hit share prices hard as investors fear further regulatory burdens."

The scandal is another blow to the beleaguered banking sector as it battles to restore its tarnished image in the wake of the financial crisis, the scandal of mis-sold payment protection insurance (PPI) and the computer problems at RBS which froze millions out of their accounts last week.

Barclays is the first major financial institution to settle with regulators following a wide-ranging investigation that has spanned North America and Europe, and there is speculation that any banks who have not worked with the authorities could be hit with even larger fines. The fine from the FSA would have been £85m if Barclays had not co-operated.

Barclays also agreed to settle a penalty of $200m (£128.2m) with the Commodity Futures Trading Commission and $160m to the US department of justice.

Jonathan Jackson, head of equities at Killik & Co, said even that may not buy Barclays immunity from further action.

“It is difficult, in the absence of further information, to gauge the impact of potential civil lawsuits and the protection, if any, that Barclays would enjoy under the agreements announced with the regulators,” he said.

“Some estimates are that potential damages could run into the several billions of dollars, certainly damaging to Barclays but not too significant in the context of core tier one capital of £43bn and annual net income over £3bn.”

But Jackson still recommended buying Barclays shares, saying that the damage was priced in. Shares in Lloyds were also lower despite positive broker comments on its tentative agreement to sell 632 branches to the Co-op, announced on Wednesday after markets closed.

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