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BUSINESS

Interest Rate Probe Escalates

Barclays Agrees to Pay Record Fine; Emails Show Traders Tried to Manipulate Libor

By JEAN EAGLESHAM and MAX COLCHESTER
Updated June 28, 2012 8:06 a.m. ET

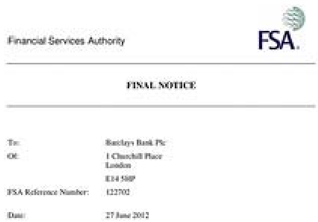
Barclays PLC agreed to pay $453 million in fines to U.S. and U.K. regulators after admitting that traders and executives tried to manipulate interest rates tied to loans and financial contracts around the world.

Investigators in the U.S., Europe and Asia have been probing alleged wrongdoing in the interest-rate-setting process for about two years. The Barclays settlement marks their biggest win yet. A series of Wall Street Journal articles in 2008 raised questions about whether global banks were manipulating the process by low-balling a key interest rate to avoid looking desperate for cash amid the financial crisis.

Emails and instant messages disclosed in the bank's settlement show how Barclays's traders tried to manipulate rates to benefit their own trading positions.

"This is the way you pull off deals like this chicken," one trader told another trader in March 2007, according to the U.K. regulator. "Don't tell ANYBODY."

THE FULL FSA SETTLEMENT

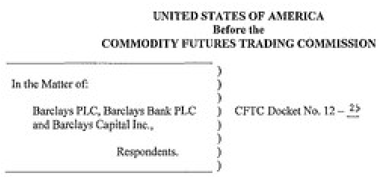


Financial Services Authority FSA

FINAL NOTICE

To: Barclays Bank Plc
Of: 1 Churchill Place
London
E14 5HP
FSA Reference Number: 122702
Date: 27 June 2012

THE CFTC'S CASE



UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of:
Barclays PLC, Barclays Bank PLC and Barclays Capital Inc.,
Respondents.

CFTC Docket No. 12 – 25

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- **Bankers Cast Doubt On Key Rate Amid Crisis** (April 16, 2008)

In response to the bank's admission, Barclays Chief Executive Robert Diamond and three other top executives at the bank agreed to forgo annual bonuses for 2012. Mr. Diamond, who had total compensation of about £15 million ($23.5 million) for 2011, said in a statement that the agreements announced Wednesday relate to "past actions which fell well short of the standards to which Barclays aspires in the conduct of its business."

Neither Mr. Diamond nor the three other executives was accused of any wrongdoing in the matter.

As part of its settlement, Barclays pledged to cooperate with continuing investigations into individuals and rival firms.

The unusually steep punishment reflected what officials said were serious and widespread efforts by traders and senior managers at Barclays to manipulate the London Interbank Offered Rate, or Libor, and the Euro Interbank Offered Rate, or Euribor. The rates are used globally to help set the price of many types of loans, from home mortgages to commercial borrowing.

The bank's $200 million fine with the Commodity Futures Trading Commission was the U.S. agency's largest penalty ever, as was the U.K. Financial Services Authority's fine of £59.5 million. Barclays agreed to pay $160 million to the Justice Department as part of an agreement in which the bank escaped possible criminal prosecution.

The U.K. bank's cooperation is expected to help officials wrest settlements from additional banks, which could increase the total penalties to billions of dollars, people close to the investigation said.

Other banks that have disclosed they are under investigation include Citigroup Inc., C -0.05% ▼ HSBC Holdings PLC, J.P. Morgan Chase JPM -0.37% ▼ & Co., Lloyds Banking Group PLC and Royal Bank of Scotland Group PLC. None of these banks have been charged with any wrongdoing in the matter by U.S. or U.K. regulators.

Representatives of Citigroup, HSBC and J.P. Morgan declined to comment. Lloyds and RBS both said they were cooperating with the ongoing investigations.

The CFTC filing said the wrongful conduct at Barclays lasted at least four years and "at times occurred on an almost daily basis."

In an October 2006 email quoted by the U.K. regulator, an employee at another bank told a Barclays trader to try to get the benchmark rate lower, saying: "If it comes in unchanged I'm a dead man." Hours later he offered a bottle of Bollinger as thanks for the attempted manipulation: "Dude, I owe you big time!"

The traders attempted to profit on trading bets linked to Libor and Euribor by influencing the banks' submissions that are used to calculate these benchmark rates. Libor is set each day in London based on estimates submitted by a panel of banks. The banks are supposed to say how much it would cost them to borrow from each other in different currencies over different time periods.

The CFTC said the rates affect "enormous volumes" of financial transactions, including $360 trillion of swaps and loans, as well as futures traded on the Chicago Mercantile Exchange with a notional value in 2011 of more than $564 trillion.

Libor is calculated under the auspices of the British Bankers' Association. In its filing, the CFTC alleged that a senior manager at Barclays warned the bankers' association in a phone call in 2008 that the bank hadn't been submitting accurate Libor rates, while claiming it was not the worst offender on the panel.

"We're clean, but we're dirty-clean, rather than clean-clean," the CFTC said that the Barclays employee stated. It added that the bankers' association representative responded: "No one's clean-clean."

A spokesman for the association said Wednesday that the group wasn't aware of the events described by the CFTC and would "conduct a full inquiry into this."

The CFTC said a 2008 article in the Journal prompted a Barclays employee responsible for submitting Libor estimates to say on an internal phone call: "I'm as guilty as hell."

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The bankers' association earlier this year set up a review of the Libor process in response to the escalating probe. It has twice reformed Libor since allegations of manipulation first surfaced in early 2008, creating an oversight committee and increasing the size of the U.S. dollar Libor panel to 18 from 16.

Tracey McDermott, acting director of enforcement and financial crime at the

Financial Services Authority, said the U.K. regulator "continues to pursue a number of other significant cross-border investigations in this area." The action against Barclays "should leave firms in no doubt about the serious consequences of this type of failure," she added.

UBS AG has reached immunity deals with the Justice Department and regulators in Switzerland and Canada, giving it protection against enforcement action in relation to certain transactions and submissions for Yen Libor and Euroyen Tibor, according to securities filings. A spokeswoman for UBS declined to comment.

The Swiss bank's pact with U.S. prosecutors limits its potential liability under the class action private lawsuits against several banks that are now going through the U.S. courts to actual, rather than triple, damages.

Michael Hausfeld, a lawyer acting for the plaintiffs in one of these private lawsuits, hailed the Barclays settlements as "significant developments demonstrating the credibility of the claims that the rate was manipulated."

The regulators said Barclays senior managers ordered artificially low rates to be submitted during the financial crisis to try to shore up the bank's reputation. The managers were concerned that Barclays's Libor submissions, which were publicly available, would be seen as a sign of financial weakness if they were much higher than other banks', regulators said.

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