

# Worldwide Financial Crisis: Libor Scandal goes Global

By [Robert Stevens](#)

Theme: [Global Economy](#)

Global Research, August 05, 2012

[World Socialist Web Site](#) 3 August 2012

*The UK Conservative/Liberal Democrat government this week announced the terms of a review into the deepening London Interbank Offered Rate (Libor) crisis.*

The review was commissioned by Chancellor George Osborne, and will be led by Martin Wheatley, managing director of the Financial Services Authority (FSA) and chief executive-designate of the Financial Conduct Authority.

Libor is a daily rate covering 10 currencies and is supposed to measure the average cost of short-term loans between major banks. It is set in London by 16 banks and is run by the British Bankers' Association. The interest rates for tens of trillions of dollars in home mortgages, student loans and credit cards are pegged to Libor, as are derivatives valued at \$350 trillion and eurodollar futures worth \$564 trillion.

Last month, Barclays Bank was fined a total of £290 million (\$455 million) for illegally manipulating its daily Libor submissions between 2005 and 2009.

The Wheatley Review is a damage limitation exercise, proposing only to "undertake a review of the framework for the setting of LIBOR."

While it is to examine "The potential for alternative rate-setting processes", the interests of the banks will be prioritized, as its remit will also consider "The financial stability consequences of a move to a new regime and how a transition could be appropriately managed."

Wheatley has acknowledged that the rigging of Libor was "extremely serious", but instead of calling for any criminal action to be taken against those found guilty he declared it showed that "urgent reform of the Libor compilation process is required".

The Wheatley Review avoids dealing with any of the illegal practices of Barclays that gave rise to it in the first place. The terms of the review state that it "will not consider any issues relating to the actions or alleged actions of specific financial institutions in attempting to manipulate LIBOR or other benchmark rates. These issues will continue to be investigated by the FSA and other regulators around the world."

The review is to conclude in just four weeks in order for any recommended legislation to be included in the Financial Services Bill, currently going through Parliament.

Last Friday it emerged that the offices of Barclays in Milan, Italy had been raided in relation to the Libor crisis. Italian police officers seized documents, emails and other electronic

communications during the raid. According to the *Financial Times*, the raid was “part of an investigation that seeks to see if Italian consumers were hurt by the British bank’s manipulation of Libor, the London Interbank Offered Rate, and its euro equivalent Euribor.”

Two consumer watchdogs have estimated that 2.5 million Italian families with mortgages linked to Euribor were financially damaged—to the tune of €3 billion by the rigging of Euribor.

Each day sees a global spread of the crisis.

This week German-based Deutsche Bank acknowledged the involvement of some of its employees in rigging Libor rates. It claimed that only a “limited number” were involved and said an internal inquiry had cleared its senior management of any wrongdoing. Deutsche Bank is currently being sued over claims it manipulated the yen Libor rate and the price of derivatives tied to the Euroyen benchmark by US litigants.

Over the weekend speculation mounted that the Swiss-based global financial services operation UBS was also involved in manipulating Libor. On Saturday, Reuters reported that traders employed by Barclays, RBS and UBS “played a central role” in rigging rates. Based on a review of court documents and other sources, Reuters said, “Between them, the three banks employed more than a dozen traders who sought to influence rates in either dollar, euro or yen rates. Some of the traders who are being probed have worked for several banks under scrutiny, raising the possibility that the rate fixing became more ingrained as traders changed jobs.”

One former Barclays employee under scrutiny is Jay V. Merchant, who oversaw the US dollar swaps trading desk at Barclays in New York from March 2006 to October 2009. He now holds a similar position at UBS in Stamford, Connecticut, Reuters states.

UBS’s role in relation to Libor rigging is being investigated by attorneys general in several US states as well as by the federal Department of Justice.

On Tuesday Deutsche Bank and UBS increased their estimates for unprovisioned litigation risk by a combined €580 million. By the end of June, Deutsche Bank had increased its estimate from €2.1 billion to €2.5 billion. UBS added a further SFr 210 million to its litigation and regulatory provisions estimates.

The exposure of the main banks involved to potential payouts resulting from legal action, including numerous class actions, according to several plaintiff firms, could reach \$1 trillion.

On Monday it emerged that New York-based Berkshire Bank is suing 21 banks including Bank of America, Barclays and Citigroup for damages over alleged Libor manipulation. Berkshire’s claim alleges that the rigging of Libor had a detrimental impact on its interest payments. Its legal complaint states, “Tens, if not hundreds, of billions of dollars of loans are originated or sold within this state each year with rates tied to [U.S. dollar] Libor.”

New York banks “were unable to collect the full measure of interest income to which they were entitled”.

Harvard Law School professor John Coates said that litigation resulting from the Libor crisis “has the potential to be the biggest single set of cases coming out of the financial crisis,

because Libor is built into so many transactions and Libor is so central to so many contracts. It's like saying reports about the inflation rate were wrong."

The banks could only have engaged in such illegal practises because they were given carte blanche to do so by the political establishment and the so-called banking regulators internationally. As the June report indicting Barclays demonstrated, the UK's Financial Services Authority was nothing more than a facilitator for whatever practises the bank deemed necessary to make a quick buck. On Monday Osborne told Parliament that the FSA's criminal powers did not actually extend to Libor, or the trading in derivatives by financial institutions.

With public anger toward the banks growing, the UK's Serious Fraud Office (SFO) was forced to acknowledge Monday that it had the powers to act against the banks involved in the rigging of Libor. The SFO said it was "satisfied that existing criminal offences are capable of covering conduct in relation to the alleged manipulation of LIBOR and related interest rates."

As investigations over Libor continue into many banks, by at least 10 financial regulatory authorities across three continents, it is expected that a number of them will face accusations of criminal activity.

On Sunday RBS's chief executive Stephen Hester told the *Guardian* that he expected the bank to soon face allegations relating to Libor and to be hit with a fine. An investigation of the bank by the FSA was underway, he said, adding, "RBS is one of the banks tied up in Libor. We'll have our day in that particular spotlight as well."

RBS is deeply implicated in the speculative and criminal activities of the banks that resulted in the 2008 global financial meltdown. In November 2009 the British government completed the world's largest bank bailout, with the total cost of its takeover of RBS reaching £53.5 billion.

The original source of this article is [World Socialist Web Site](#)  
Copyright © [Robert Stevens](#), [World Socialist Web Site](#), 2012

---

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Robert Stevens](#)

**Disclaimer:** The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)  
[www.globalresearch.ca](http://www.globalresearch.ca) contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those

who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)