EU announces token fines on banks caught rigging global rates

By Stefan Steinberg and Barry Grey
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The European Union announced Wednesday it was fining six major European and American banks and brokers a total of €1.7 billion ($2.3 billion) for their manipulation of the most important benchmarks for international interest rates—the London Interbank Offered Rate (Libor) and its euro-denominated cousin, the Euro Interbank Offered Rate (Euribor).

Deutsche Bank, Societe Generale, Royal Bank of Scotland, JPMorgan Chase and Citigroup, along with the UK-based broker RP Martin, agreed to pay the fines as part of a settlement with European Union authorities investigating the massive and illegal rigging of rates.

The conspiracy among major global banks to manipulate Libor first became public in the summer of 2012, when UK-based Barclays admitted seeking to manipulate the Libor rate between 2005 and 2009. It agreed to pay a total of $453 million in fines to US and British regulatory authorities. It was reported at the time that between 12 and 20 other international banks were under investigation for rigging Libor, Euribor and the yen-denominated Tibor (Tokyo Interbank Offered Rate).

The Swiss banking giant UBS agreed to pay fines totaling $1.5 billion in December of 2012 to settle charges by American, British and Swiss authorities that it conspired to manipulate the Libor rate.

Reporting on the scandal in 2012, one *Financial Times* commentator described manipulation of the Libor rate as “the financial equivalent of contaminating the water supply.”

The daily Libor rate, which is supposed to measure the average cost of short-term loans between major banks, determines the interest rates for loans and investments that affect hundreds of millions of people around the world. According to some estimates, Libor influences hundreds of *trillions* of dollars of loans and derivatives, including mortgage rates, credit card rates, other consumer loan rates, and financial deals such as credit default swaps.

The rigging took the form of banks knowingly submitting false estimates of their inter-bank borrowing costs to the Libor board, in order to drive up or down, depending on the banks’ profit needs, the aggregate rate calculated from estimates submitted by a set of major international banks. By such means, the banks inflated their profits by effectively robbing hundreds of millions of consumers around the world.

The *Wall Street Journal* has estimated that an extra 0.3 percentage points for Libor would add $100 to the monthly payment on a $500,000 adjustable-rate mortgage. Lowballing the Libor rate, on the other hand, cost government agencies and pension funds untold billions of dollars on their bond investments.

The latest fines amount to another slap on the wrist for banks that have long since factored such penalties into their accounts. Once again, banking giants have emerged virtually unscathed from an official investigation. None of the bankers responsible for defrauding millions of savers across the globe and pocketing billions in the process will be prosecuted, let alone sent to prison. Instead, they will be allowed to continue their criminal practices.

Barclays and UBS struck deals to avoid paying large parts of their penalties in exchange for blowing the whistle on other banks. Most of the financial institutions involved in the settlement announced Wednesday by the EU received a ten percent reduction in their fines in exchange for admitting culpability.

To put the fines in their proper context, a study by the London School of Economics to be published next week calculates that ten major banks, including the

Royal Bank of Scotland, Barclays and Lloyds Banking Group, were able to reap a total of £100 billion through Libor fraud in the five years to the end of 2012. Another study by MSCI ESG Research calculates this total has since increased by at least £30 billion.

The full amount extorted by the banks is likely much higher. In its own investigation into the activities of the banks, the European Commission, the executive arm of the EU, restricted its research into the repercussions of interest rate manipulation for the European Economic Area, ignoring the billions siphoned by the same banks from the rest of the world's markets.

Following Wednesday's announcement by the European Commission, the Royal Bank of Scotland issued a statement that it had already factored the fines into its current accounts.

Commenting on the Royal Bank of Scotland fine, a senior analyst at MSCI ESG Research said, "If you look at RBS, it is the equivalent to its revenues for five weeks. That's not much."

Deutsche Bank, which received the largest single penalty, €725 million, announced it has already set aside over €4 billion to cover the costs of the European Commission fine and any other penalties that arise from its activities in the financial markets.

The pricing in of financial penalties for illegal activities is now common practice for the major banks. On the same day that the EU fines were announced, the Swiss business and finance daily *Neue Zürcher Zeitung* wrote: "The big banks all over the world are increasing their reserves earmarked for legal risks."

The latest revelation of criminal practices by the major banks evoked declarations of shock and concern by media commentators and politicians. Writing in the *Süddeutsche Zeitung* on Thursday, Marc Beise noted that the leader of the German neo-liberal Free Democratic Party had denied that he was a capitalist. Beise went on to complain that gamblers in the financial markets were "well on the way to digging the grave" of the capitalist system.

In *Der Spiegel*, financial analyst Wolfgang Münchau wrote: "There has always been crime in the economy. But when crime assumes such proportions, you ask yourself whether it is a case of isolated perpetrators in an organization or if the organization is itself criminal."

Münchau warned the bankers that they failed to recognise how hated they were by the population at large, and declared that what has been revealed was only a "tiny fraction of the dirty tricks of the financial branch."

Bourgeois commentators like Beise and Munchau are genuinely worried that the blatant criminality exposed by the latest settlement could fuel a mass movement of opposition directed not only at the banks, but at the entire capitalist system.

German politicians are rushing to carry out a damage-control operation. On Thursday, the German business daily *Handelsblatt* featured a front-page photo of German Finance Minister Wolfgang Schäuble under the headline: "The Bank's Bogeyman." In an interview, Schäuble posed as an opponent of the banks' malpractices and declared that the process of regulating the banks would continue.

These statements are entirely bogus. Following the financial crash of 2008, Schäuble was one of many German and international political figures who promised extensive control of the banks. Since then, nothing has happened. The same banks that brought the world to the brink of a financial meltdown are bigger and more powerful than ever.

The bank executives know that governments and central banks will do all in their power to shield them. Top officials of the US and British central banks were well aware of the manipulation of the Libor rate as early as 2007, but did nothing to expose or halt it. It is highly unlikely that the current head of the European Central Bank, Mario Draghi, a former Goldman Sachs executive, was unaware of such practices in Europe.