

German financial supervisor implicates Deutsche Bank in Libor manipulation

By Sven Heymanns
28 July 2015

On June 30, the co-chairman of Deutsche Bank, Anshu Jain, suddenly resigned, supposedly voluntarily. It has since become clear that Jain was forced out due to his involvement in the criminal manipulation of the Libor lending rate, which was uncovered in the summer of 2012.

Jain's role was indicated by a report from the federal office for financial supervision (BaFin) prepared this month and subsequently published by the *Wall Street Journal*. The report raises serious accusations against four of the eight serving directors of Deutsche Bank, as well as two senior managers at Germany's largest credit institution, including Anshu Jain.

The 10 individuals were accused of having at least known about and covered up Deutsche Bank's role in manipulating the Libor interest rate. The bankers concerned had failed to sufficiently fulfill their oversight obligations. As the scandal was being investigated, they supplied the relevant authorities with incomplete and partially inaccurate information, according to the report.

Together with Jürgen Fitschen, Jain joined the leadership of Deutsche Bank in June 2012 as the successor to Josef Ackerman. Fitschen has also announced his resignation, but intends to remain at his post until the next shareholders' meeting in May 2016.

Loud criticisms were raised against Jain at a turbulent shareholders' meeting in May. Only 61 percent of the shareholders voted to back the board. Among other things, it was charged with responsibility for the \$2.5 billion fine that Deutsche Bank had to pay to British and American financial supervisory authorities in April due to the Libor scandal.

Even in 2012, when Jain took up his post at the head of Deutsche Bank, he faced accusations that he had played a decisive role in the Libor manipulation. The supervisory board turned a blind eye out of greed for profit, hiring him in spite of this. Jain secured billions in profits for

Deutsche Bank's London-based investment banking division, where he worked since 1995. In 2005, his department made half of the bank's total global profit. In the first quarter of 2010, it contributed \$6.6 billion to the bank's net income of \$9 billion.

As has now been revealed, this bonanza was the result of criminal practices. Jain's department was directly implicated in the manipulation of the Libor interest rate. To understand the import of the accusations, it is necessary to take a look at the significance of the Libor interest rate and the scale of the manipulation.

The London Inter-Bank Offered Rate (Libor) is a base interest rate for business between banks that is altered daily. In simple terms, it determines the interest rate on which banks lend each other money. To determine Libor, 16 banks provide a central agency in London with the figure at which they would lend money to other banks, with Libor being calculated as the average of these rates.

A large percentage of global financial market trading is directly or indirectly connected to Libor. In 2012, the *Frankfurter Allgemeine Zeitung* estimated that credit valued at \$500 trillion depended on Libor. Many cities and municipalities have their investments contractually tied to Libor. Even some central banks base their monetary policy on Libor.

In the summer of 2012, it was revealed that numerous banks, including Deutsche Bank, held secret meetings to discuss the manipulation of Libor. They would provide false information about their internal rates for the determination of Libor, and could then prepare the bank for the previously discussed Libor rate.

This fraud had huge consequences for those business partners affected. If the interest rate was artificially pushed up, mortgage owners and private creditors were principally affected. The *Wall Street Journal* calculated in 2012, on the basis of one case study, that an increase of Libor by just 0.3 percent would mean a monthly payment

increase of \$100 for a mortgage of \$500,000.

In the alternative case, when Libor was kept low, it created a massive burden for municipalities and other institutions with investments in the market. Numerous cities and municipalities in Germany and throughout Europe suffered severe financial effects because their investments were significantly affected by the interest rate manipulation.

Shortly after the scandal broke, a trader compared the manipulation of Libor to the poisoning of public drinking water, according to the *Wall Street Journal*. Although the BaFin report does not accuse Jain directly of directing his traders to manipulate Libor, it states that he created an environment in which such actions were at least encouraged. He is also suspected of having known about the manipulation much earlier than he has previously admitted.

For example, in 2005, Jain had Deutsche Bank's trading room in London redesigned. From then on, the traders, who accumulated a large proportion of the bank's profits, sat next to the so-called submitters that transmitted the figures to determine Libor on a daily basis. This, according to the BaFin report, "increased" conflicts of interest. In fact, after the reorganisation of the seating, the department's profits rose dramatically.

In this context, Jain was accused of having failed to organise any investigation into possible manipulation, in spite of the massive profits. On the contrary, the BaFin report describes internal e-mail communications from the bank, which reveal that Jain set particularly high bonuses for the most profitable traders. According to a report by *Stern* magazine, he allegedly ensured that the trader Christian Bittar, who achieved €500 million in profits from interest rate trading in 2008, obtained a bonus of €80 million. Bittar was laid off three years later due to interest rate manipulation.

Only after the first rumours about the potential fixing of Libor became public did Jain begin an internal investigation in 2009. However, he initially concealed its results, and he did not present them to the board.

According to this timeline, Jain must have lied to the Bundesbank, Germany's central bank. At a hearing on the Libor scandal in 2012, according to the BaFin report, he claimed that he only heard about the potential manipulation for the first time the previous year. In fact, he received two e-mails early in 2008 from a close confidante in the bank in which the manipulation of Libor was allegedly discussed.

To date, Deutsche Bank has only acknowledged that

individual employees were involved in the manipulation of Libor. The bank laid off 12 traders in 2012, after the scandal exploded. Others "felt the impact of sanctions," according to a report in the *Frankfurter Allgemeine Zeitung*.

Until a few days ago, Deutsche Bank continued to claim that none of the board's current or previous members had ordered employees to manipulate Libor. This group of individuals had known nothing about the manipulation of Libor until June 2011, it alleged.

Along with Jain, the BaFin accuses current board members Stefan Krause, Stefan Leithner, Stuart Lewis and Henry Ritchotte.

Chief legal officer Richard Walker was also among those implicated. He is accused along with chief of risk Stuart Lewis of not cooperating sufficiently with the supervisory authorities, and with providing inaccurate information. Ritchotte was accused as IT chief because the fraud was only possible due to the bank's computer systems. Despite a massive increase in profits, financial chief Krause did not carry out any internal investigations.

Legal chief Leithner was accused in the BaFin report of warning in an internal e-mail in 2013 not to make an issue in the media of the fact that the manipulation of Libor was known about in the bank five years earlier. Otherwise, the question would naturally arise, "Why no-one at Deutsche Bank reacted at the time?"

To date, not a single senior banker has been civilly or criminally prosecuted for their involvement in the Libor scandal. Jain, who publicly gave the impression that he would not be receiving a pay-off, was in fact awarded with millions of euros, and he will receive a further €22 million in the coming years from pension funds and remuneration entitlements, according to a *Spiegel* report.

To contact the WSWS and the
Socialist Equality Party visit:

<http://www.wsws.org>