

BARCLAYS BANK BANKING ON ETHICS

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On February 28, 2012, the United States Department of Justice announced a criminal investigation into abuse of the LIBOR, an important interest rate regulated by the British Bankers' Administration. Four months later, London-based Barclays Bank was fined more than \$440 million by United States and English financial regulatory agencies for knowingly manipulating the LIBOR to its own advantage. The political and economic uproar that followed the exposure of Barclays' actions led to several resignations (including that of Barclays' CEO Bob Diamond) and further criminal investigations. Former governor of New York Eliot Spitzer called the incident "the mega-scandal of mega-scandals," while journalist Robert Scheer christened it "the crime of the century."

The LIBOR, short for "London Interbank Offered Rate," is the interest rate banks pay when they borrow money from each other. To calculate this rate, up to 20 influential British banks report their own proposed bank-to-bank lending rates. The highest and lowest rates are trimmed off, and the remaining rates are averaged, creating the LIBOR. A low LIBOR often points to financial stability, while a high LIBOR indicates that banks lack confidence in each other's economic health. What Barclays was fined for was proposing artificially low bank-to-bank rates to make itself appear more stable than it actually was. However, further investigations indicated that Barclays colluded with other banks—and perhaps even the British government—to impact the LIBOR itself. An unnaturally low LIBOR would suggest greater economic stability than actually existed, misleading investors and loan-seekers in a potentially volatile market, and thus creating profit for the banks involved in the collusion.

The rate manipulation carried out by Barclays affects not only London banks and business executives, but also small businesses and individuals—perhaps even you yourself. Because it has historically been considered trustworthy and economically accurate, the LIBOR is used all around the world as an interest rate and financial

instrument benchmark. Everything from currency values (including the United States dollar) to multimillion-dollar corporate debts to home mortgages to individual student loans depend on the LIBOR. While it may not seem like it, each of these is a product that is marketed and sold. As loans and exchanges of varying types are banks' primary sources of profit, banks compete to exchange these products within a market. At the consumer level, consider how many car and credit card commercials you have seen advertising a low interest rate. Hundreds of trillions of dollars worth of these financial products have been sold based on the LIBOR—a rate that may not in fact accurately reflect the world's shaky economic standing.

Journalists and economic analysts have been quick to reject the ethicality of Barclays' actions. As information about the LIBOR scandal broke, *TIME* contributor Christopher Matthews wrote, "[Barclays' alleged collusion] speaks to the moral compass, or total lack thereof, of the world's financial professionals...the public and the government no longer trust the industry to set its own standards for acceptable behavior." In a piece for *The Nation*, Robert Scheer said, "The modern-day robber barons pillage with a destructive abandon totally unfettered by law or conscience and on a scale that is almost impossible to comprehend." Dennis Kelleher, president of nonprofit financial watchdog organization Better Markets, Inc. was perhaps most condemnatory of all: "What we probably need is to wipe out this entire generation of so-called banking leaders who apparently have no ethics or integrity." While the total sum of the LIBOR scandal's consequences are yet to be seen, Barclays' actions may go down in history as a monumental failure in business ethics and corporate social responsibility.

Sources: Christopher Matthews, "LIBOR Scandal: The Crime of the Century?," *TIME*, July 9, 2012, <http://business.time.com/2012/07/09/libor-scandal-the-crime-of-the-century/> (Accessed July 10, 2012); Danny Guttridge, "Understanding the LIBOR Scandal," *Kapital Blog*, July 9, 2012, <http://wire.kapital.com/investment-idea/understanding-the-libor-scandal/> (Accessed July 10, 2012); "The Mob Learned from Wall Street: Eliot Spitzer on the 'Cartel-style Corruption' behind Libor Scam," *Current*, July 3, 2012, <http://current.com/shows/viewpoint/videos/the-mob-learned-from-wall-street-eliot-spitzer-on-the-cartel-style-corruption-behind-libor-scam/> (Accessed July 10, 2012).