The LIBOR Scandal and Calls for Regulation

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The LIBOR scandal engulfing the UK banking sector, has exposed the unfettered freedom of panel banks and rate submitters in their LIBOR rate-setting activities, and highlighting the FSA's inability to impose regulatory action forcefuly. In recent months this has led to calls by many for more regulatory oversight of LIBOR in the future.

In June 2012, Barclays was fined a record £290 million by the Financial Services Authority (FSA), U.S. Department of Justice (DOJ) and the U.S. Commodity Futures Trading Commission (CFTC) for various regulatory breaches relating to the setting of LIBOR (London Inter-Bank Offered Rate) going back at least as far as 2005.

LIBOR is a short-term interest rate, designed to reflect the cost of borrowing between banks. A panel of banks submits estimates daily to the British Bankers' Association (essentially a trading organization made up of banks). These estimates are then averaged out by Thomson Reuters for each LIBOR currency and tenor (duration), with the highest and lowest submissions discarded.

Regulatory authorities found that derivatives traders at Barclays made requests to their own rate submitters to fix LIBOR at certain levels and, on occasion, went so far as to try to influence the LIBOR submissions of other panel banks. Moreover, instructions were given by Barclays management to submitters within the bank to lower LIBOR submissions during the financial crisis due to concerns over negative media comments about the bank's liquidity.

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