Barclays scandal: libor

Finance

Employees at Barclays submitted lower than actual predicted rates to Thomson Reuters. Why it was done Derivative transactions made use of the Libor rate. Hence, the fluctuation of the rates would influence the profit gained for the traders. Both the traders and rate submitters cooperated through frequent interaction as traders requested for lower rates because they would benefit by paying less for the interest charged on the derivatives. Barclays submitted lower rates to conceal the troubled state it faced during the 2008 credit crunch when initially their submitted rates were higher than other banks. Lower rates prove that banks intending to lend funds to Barclays were assertive of their financialhealth, because the less assurance a bank had for another, the higher the rate charges will be, and Barclays expressed the contrary to conceal their financial instability.

It was said that Bob Diamond, the chief executive officer of Barclays, was contacted by Paul Tucker, the deputy governor of the bank, concerning the recurrent greater rates amongst other banks, which worried Diamond who conveyed the news to Jerry del Missier, then a chief operating officer, who misinterpreted the news as a command to rig the rate. How it was done. It was effortless to manipulate the rates because they are derived from estimates rather than calculated values. Also, interbank borrowings were reduced during the financial crisis causing difficulty in evaluating whether submitted rates were realistic. Consequences for Barclays’ scandal Manipulating the Libor rate is intolerable and investigation involving the FBI is reputational damage in itself, not only towards Barclays but in the banking sector as a whole where regulators are still speculating which other banks were involved. Barclays received a total of 290 million penalties from FSA, CFTC, and DoJ for manipulating the Libor rate. Furthermore, former Barclays' chairman, Marcus Agius resigned on July 2nd, 2012, followed by Bob Diamond and Jerry Del Missier on July 3rd, 2012 as a result of their involvement in the LIBOR scandal. Similarly, 3700 employees were discharged to reorganize the Barclays banking regime. As Libor accounts for $300 trillion worth of financial transaction, this affects many because lenders lose out as the borrowers benefit from the low-interest rate charges and people are very disappointed at the extend to where Barclays has gone to. Due to the scandal, Barclays' share prices fluctuated because the market expected charges for lawsuits against Barclays and it reflected the reputational damage Barclays has encountered for its involvement in the scandal (Armour, n. d.), though this has caused an overhaul in Barclays that resulted in the increase of share prices months after. Moreover, investment firms and municipal governments who fell victim to the Libor scandal due to the buying of bonds or signing of contracts demanded reimbursement from Barclays and will inevitably elicit legal actions.

Role of Financial Management

Profit maximization is the goal of financial management indicating that its objective is gaining the greatest profits by using all possible resources irrespective of the consequences of the underlying risk. This is seen as Barclays' traders tried to maximize profits for their own benefit as well as their stakeholders. Shortcomings of Profit Maximization During the financial crisis, banks were financially unstable, they refused to borrow one another funds because of the low confidence they had for one another, seen through the Libor ratings that were previously submitted before the Libor rigging scandal. Barclays chose to conceal its proper Libor rates that would have indicated its troubled state to the public. This was second by the fact that a firm that pursues the goal of profit maximization will inevitably exploit its workers and consumers, which exemplify an unethical way of carrying out a business resulting from its corrupted practices. In Barclays' case, this was shown by its objective to save the bank's reputation by finding means to profit maximize to avoid possible outcomes offailure.

Jerry's assumption of Bob's instruction to fix the Libor rate when it was unfavorable is another illustration of profit maximization gone wrong when financial managers think solely for the purpose of profit maximization for the shareholders as it diverges its actions by carrying out unethical behaviors to gain short-term gratification. Barclays has neglected possible risks because they were too focused on profit maximization as they rigged the Libor for the past years. Risk ignorance is another flaw of profit maximization (eFinance Management n. because firms tend to be shortsighted towards maximizing profit they deserted their morale. This is shown by the reputational damage as a consequence of the scandal. Lastly, the disregard of quality is a shortcoming shown through Barclays' scandal because Barclays obsessed over profit maximization, it neglected the goodwill of the bank. Barclays being a world-renowned bank that was earned through the years overlooked its goodwill as an asset as it rigged the Libor rate to earn short-term profits. Summary It can be concluded that Barclays' manipulation of the Libor rate was unacceptable. However, they have taken fullresponsibilityfor the consequences. It is suggested that Barclays make an overhaul in its management by changing its mentality from a bank that gravitated its goal on profit maximization to prioritizing an ethicalenvironmentbefore its success through removing workers incapable of committing to the revised goal, as this will be a long-term change. Antony Jenkins, the new Barclays CEO mentioned in Barclays Boss Lays Out Revival Plans (2013) that Barclays was previously too shortsighted as well as being too aggressive and self-serving. Nonetheless, the current damage helps Barclays to learn from experience. Presently, it is advisable to create shareholder value by combining a well-thought-of goal with focused financial planning that will deliver returns to shareholders but in an ethical manner that is acceptable by society. The installation of more advanced surveillance devices further enforces this plan as employees are monitored closely in efforts to control the wellbeing of the workers. Lastly, it is suggested to form a neutral ring-fenced rate-setting unit to monitor the submission of the rate in Barclays and this combines with training that shall be implemented to nurture an ethical and systematical way of setting the Libor rate. This plan aids by applying a team submission rate rather than an individual whereby rates submitted will be relatively reliable.

Reference

1. ACTUELNEWSCHANNEL. 2013.
2. Barclays Boss Lays Out Revival Plans [online]. [Accessed 22 February 2013].
3. Available from: http://www. youtube. com/watch? v= 4dznoD8yd14 ARMOUR, J. [2012].
4. The Price of Reputation: Lessons from the Barclays LIBOR Scandal [online]. [Accessed 9 March 2013].

5. Available from: http://www. clmr. unsw. edu. au/article/ethics/libor-manipulation/price-reputation-lessons-barclays-libor-scandal BBALIBOR. [no date]. bbalibor explained [online]. [Accessed 28 January 2013].
6. Available from: http://www. bbalibor. com/bbalibor-explained/the-basics BBC. [2012].
7. Labor – what is it and why does it matter [online]. [Accessed 28 January 2013].
8. Available from: http://www. bbc. co. uk/news/business-19199683 BBC (A). [2013].
9. Barclays boss tells staff “ sign up to ethnics or leave” [online]. [Accessed 18 February 2013].
10. Available from: http://www. bbc. co. uk/news/business-21064590 BBC (B). [2013].
11. Timeline: Libor-fixing scandal [online]. [Accessed 8 February 2013].