

# Harsh light falls on dark underbelly of global lenders' trading operations

## COMMENT

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A harsh light has once more focused on the culture at the heart of global banks and their vast trading operations.

Repeated efforts by traders to manipulate daily fixings of currencies and interest rates, as outlined by the latest regulatory actions announced yesterday, illustrates the dark underbelly of

many of the trading operations run by global banks.

Or in the words of one Barclays trader from 2010, who was quoted in a settlement document: "If you ain't cheating, you ain't trying".

The thread that runs through three solid years of benchmark rigging cases is the assured way that traders pushed around the prices of financial products. All seem to have believed that they were immune from being rumbled for abusive behaviour.

Unlike investing in equities, trading of fixed income, currencies and commodities has long flourished in the dark,

away from the bright lights of an exchange-based market that provides investors and regulators with much clearer information about prices and possible abuse.

The FICC (fixed income, currencies and commodities) model was built on traders setting the rules for transacting

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currencies, bonds, derivatives and commodities with a vast array of customers, such as hedge funds, asset managers, companies, insurers and pension funds.

The huge market flows have long been based on transactions privately negotiated over the phone or via purpose-built computer systems. They relied on personal relationships, fuelled by late-night entertainment and junkets among bankers and their customers.

But as all the benchmark rigging cases in recent years have shown, the less savoury side of the FICC business has been traders seeking profits at the expense of investors who trusted the

banks to provide them with fair or at the very least, reasonable market prices.

For banks, the high octane promise of FICC has already taken a big hit from tougher regulations after the financial crisis. These have increased the cost of their business model, abolished in-house proprietary activities and pushed for the exchange type trading of derivatives. FICC revenues will remain important for banks. But the latest multibillion-dollar settlements with regulators make clear that things have changed. No bank can afford to employ a trader who thinks that cheating and trying are synonymous.

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MAY 21, 2015