

“Dictum meum pactum”

“My Word is My Bond” was the motto of the Stock Exchange in London. Indeed, the expression was also used to describe the culture of the City, the financial district. How it has changed! Now the LIBOR (and Euribor) manipulation scandal, in which many banks other than Barclays also seem to be involved; the tax evasion schemes actively marketed by various banks; the laundering of drug money from Mexico; the inappropriate derivatives sold to clients for which the Financial Services Authority (FSA) has got an agreement from major banks to *“provide fair and reasonable redress”*; etc. – these are today far more representative of the culture of Anglo-Saxon banking than the old motto. No wonder Philip Augar, an old timer in the City, has titled two of his books as *‘The Death of Gentlemanly Capitalism’* and *‘The Greed Merchants’*: both deal with the post Big Bang culture, the Gordon Gekko’s *“Greed is Good”* culture (vide the 1987 movie *Wall Street*), encouraged by the Thatcher regime. All these scandals have erupted one after the other in recent months. There is one other case attracting headlines -- the fine of \$340 mn imposed on Standard Chartered by the New York Department of Financial Services, for transgressing U.S. restrictions on transactions with Iran. To my mind, the last case stands on a different footing than the others, and I would revert to it. But this apart, if the mortgage backed complex securities scandal brought into full public view the rotten culture of Wall Street banking, the recent scandals have done the same in respect of the City.

Coming back to Barclays, for a long time it was a venerable, sober, conservative institution. (I still have memories of Barclays Bank D.C.O. – Dominions, Colonial, and Overseas -- from the 1970s when I worked in the City. It was best known then for its Barclaycard.) It was not ranked amongst the top 10 global investment banks even at the beginning of the 21st century. It would appear in retrospect that it was the introduction of an American as the CEO that brought in a different culture; today it ranks in the top ladder of global investment banks. This culture can best be described in the words of

the preliminary findings of a U.K. Parliamentary Committee investigating the LIBOR fixing scandal:

“There was something deeply wrong with the culture of Barclays. Such behaviour would only be possible if the management of the bank turned a blind eye to the culture of the trading floor.”

“The attempted manipulation of Barclays' LIBOR submissions with the intention of personal gain continued for four years. It is shocking that it flourished for so long. Any system may fail for a short period, but compliance at Barclays was persistently ineffective. Even when Barclays' compliance had indications that something was awry, it failed to take the opportunity to strengthen the bank's controls.”

“(the whole case is) reflective of a poor culture which does not take seriously enough abiding by the rules essential to proper functioning of the bank and the wider financial system.”

If Barclays has received the maximum publicity, its culture is perhaps representative of all the major global investment banks – the manipulation of words and their meanings starts with the nomenclature itself: they neither make “investments”, i.e. place moneys for the long term, nor look to their function as a bank taking deposits and making loans, as the principal activity. Someone has perhaps correctly described investment banks as casinos to which is attached a dull utility. The compensation packages and bonuses in the two wings are vastly different.

I often wonder whether the culture of self-righteous double standards of many of the activities and use of words by investment banks have not been borrowed from American politicians: to give some examples, for U.S. politicians, “the international community” means the Anglo Saxon world of less than 400 mn people; there is concern about human rights abuses in China, but none about the inmates of Guantanamo prison, extraordinary renditions (kidnappings in plain English) in the so-called war on terror; concerns for democracy but the dislike of too many democratically elected governments and a strong friendship for the fundamentalist monarchies in the Middle-East; etc. The “investment banks” could even teach the politicians a thing or two – until his resignation,

Bob Diamond, the Chief Executive, continued to stress Barclays responsible citizenship: *"I am determined that Barclays plays its role as a full corporate citizen, acting properly and fairly always, and contributing positively to society in everything that we do."* To make such statements with a straight face, seems to have become an essential skill for investment banking: just see Goldman Sachs values/mission statement!

Having gone through a number of reports on the StanChart case, I wonder whether it is not the result of the complexity of regulations rather than any deliberate attempt at evasion. The transactions fell under the so-called "U-turn" exemption for receipts/payments between non-Iranian, non-U.S. banks, and were, until now, considered regular by other regulators. After vowing to fight the charges, Stanchart succumbed, discretion being the better part of valour?

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