

Ground the banks until they learn to behave?

Written by The Conversation

Five minutes, that's all!

Behave tolerably well for 5 minutes each day, for 25 measly minutes each week, that's all we ask.

The rest of the time, traders can behave like overgrown schoolyard bullies, as is evident from the foulmouthed telephone transcripts submitted by ASIC in its case against Westpac.

In return for access to cheap funds courtesy of the Australian taxpayer, so-called Prime Banks, such as ANZ and Westpac, don't have to do very much. But one thing that they have signed up to do is to run a fair and orderly market in financial products based on floating interest rates, in particular rates that are tied to the Bank Bill Swap Rate (BBSW).

What investors were [asking](#) (and incidentally what the banks as members of AFMA signed up to), was not particularly onerous. All banks had to do was to observe the trading that took place in their market just before 10 o'clock (typically most trading takes place between 9:55 am and 10:00) and to give a 'view' on what the mid-market rate for the day was, for each rate period (so-called 'tenor').

That cannot be too hard, can it? The Australian Financial Markets Association (AFMA) requires that banks

(a) conduct their trading activities in a fair and orderly manner; (b) maintain the integrity of financial markets; and (c) not carry out trading that: (i) would interfere with the normal supply and demand factors in the market for a financial product; (ii) had the potential to create artificial markets or prices; or (iii) was not based on a genuine trading or commercial intention.

But some people just couldn't do it. Not even for five minutes. They just couldn't do what they agreed to do. They just had to fiddle the system.

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We had a massive rate set today like we had like a fucking 14 billion of 1 month. so I ended up buying like 2 billion dollars. I knew it was completely wrong but fuck it I might as well,

In other words, I couldn't help myself, I just had to break the rules. Instant gratification is too delayed for these traders.

Some Westpac traders enjoyed behaving badly, as two Westpac traders chuckled

Trader 1: "He bought like 2 ½ billion dollars' worth of stock for the rate set so — (laughing). So he's sold I think today
Trader 2: It would be a great set
Trader 1: No no he had like a ... 14 billion rate set and a 5 billion dollar 3 month rate so ... Spend 2 for 20's not bad. So he'll be selling stuff over the next couple of days because he's got no rate sets for like another week or whatever so that shouldn't be too much of an outflow of cash.

So the scam is to buy a lot 'stuff' that you don't need within the 5 minute period before 10 o'clock, then offload it (probably at a loss) over the next few days. Sounds silly – not if you 'accidentally' make a few million when you have forced the BBSW rate down by your purchases.

I thought fuck it. We've got so much money on it, we just had to do it, right.

But it appears that it was not just the children that couldn't help themselves. The parents were at it too.

In its case against ANZ, ASIC has submitted transcripts of conversations between senior ANZ managers who, it is claimed, were just too hemmed in by their own rules. If they had wanted to cheat, they just didn't have the room to do it within their credit limits. They had already spent their pocket money allowance.

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What to do? The head of the bank's institutional credit risk, Andrew Stuchbury, found an answer - increase the credit limits for other banks

The current 5 per cent [credit limit] for banks is insufficient for this process which is essential for the bank."

What is this process and why so 'essential'?

ASIC alleges that, by setting the BBSW rate "at a level helpful to the bank", ANZ managers believed that they could increase their profits by between \$7 and \$10 million per year. Sod the customer, sod the taxpayer, break out the Bundy!

Interestingly, Mr Stuchbury was head of credit risk but, in the middle of the Global Financial Crisis, thought nothing of increasing credit limits on banks for an extra few bob in the bonus pool and a bit of kudos from trading colleagues.

Why no worries? Because in 2010, when the BBSW rate was being fiddled by all and sundry, the banks were being guaranteed by the Australian taxpayer. No way were the banks going to fail, unless the country failed and it wasn't going to do that, courtesy of the booming Chinese economy.

Where was the regulator when this was going on? ASIC was, justifiably, [putting itself on the back](#) for chasing up compensation for investors in the WestPoint group, but was obviously too over-stretched to look at the big end of town, until some five years later.

And ASIC continues to behave weirdly. ASIC's highly-paid lawyers appear to believe that a slow drip-drip of new information on misconduct will force the banks to settle. They may turn out to be correct, but that is no way to keep the public informed of their intended actions. ASIC do after all work for the taxpayer but are not providing information on the latest allegations on their web-site. Unfortunately it's a poker game where ASIC may hold the cards, but the banks

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hold the money and are not pressed for time (unless the election goes the 'wrong' way for them?).

Meanwhile elsewhere, where grownups are in charge, a US Appeal court has ju [st reinstated a case](#) related to manipulating LIBOR against some of the world's largest banks. The judge warns that the case could 'bankrupt 16 of the world's most important financial institutions'. This scandal, [like its counterpart BBSW](#), has still a long way to run before it is finished.

As the Sage of Omaha, Warren Buffett, has said

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently"

Maybe the boards of Australia big banks, will heed Mr Buffett and rein in their naughty teenagers.

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