

Big four in spotlight for rate-rigging inquiry

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Analysis

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As ANZ squares up to fight the corporate watchdog over allegations it manipulated interest rate markets, the role and conduct of other banks has come under increased scrutiny and investigation.

While the size and influence of the big banks is broadly comparable, market insiders say there are differences in the way they are structured and that might have led to varied degrees of conduct breaches.

The way ANZ's dealing room was set up was shocking to some, with the balance-sheet traders sitting only a few metres from the dealer and derivatives brokers. There should, in theory, have been "Chinese walls" between the bank's large balance-sheet traders and the market-facing brokers and dealers. At Westpac, sources said the balance-sheet traders, led by Colin Rodin, were at the other end of the floor, with appropriate delineations.

Traders also said ANZ's compliance process and organisational governance was inferior to the other banks.

The traders, including the trainees, did not seem to get the appropriate training, former employees said.



ASIC's extensive investigation is now looking beyond ANZ for evidence of bank bill swap rate manipulation. PHOTO: LOUISE KENNERLEY

"Within global markets at Commonwealth Bank, the head of markets stepped us through key training that told us what was and wasn't inside information, how to deal with sensitive information," a former dealer who worked for several banks, including ANZ and CBA, said.

Westpac's role and influence in the Australian money markets has long been the subject of intense speculation among traders, who believed it might eventually be ensnared in the BBSW inquiry.

The bank's small team of well-paid balance-sheet traders are the 'whales' of the market. Many aggrieved brokers have been on the wrong side of a Westpac trade. Despite long-

harboured suspicions that Westpac is at the centre of the investigation, given its size and reputation, nothing has come to light.

National Australia Bank is also believed to be under scrutiny. One of its traders who held a role previously left the bank recently, although the exact reasons for the exit are unclear. Australian Securities and Investments Commission was understood to have had that trader listed as someone of interest. Then there are the brokers and traders beyond the large banks. UBS settled an enforceable undertaking in late 2012, before the investigation heated up, but was the first bank to be named as being involved.

Former traders also allege that market manipulation went beyond rigging the bank bill swap rate.

There have been suggestions the big banks also tried to influence the closing daily interest rate they use to value interest rate derivatives and might have bullied brokers into trading at levels that suited their positions. As ANZ has implied in defending itself from ASIC's action, these are complex markets, which are hard to understand. The blurred line between "hedging" and "manipulating" is hard to establish.

ASIC's investigation has been intense and extensive, with phone records and Bloomberg chat records over seven years being ordered for review.

The BBSW investigation has not only led anxious banks to pull back their trading of bank bills during the window when the BBSW is set for fear of being accused of rigging the market. The way in which brokers and dealers communicate has also changed. Conversations are kept to a minimum, with traders often refusing to converse on certain issues. The use of mobile phones has also been restricted in some dealing rooms.

The blase era where traders at the big banks said and did what they wanted has been replaced by an environment of apprehension and paranoia.

THE HORSE HAS BOLTED LONG AGO