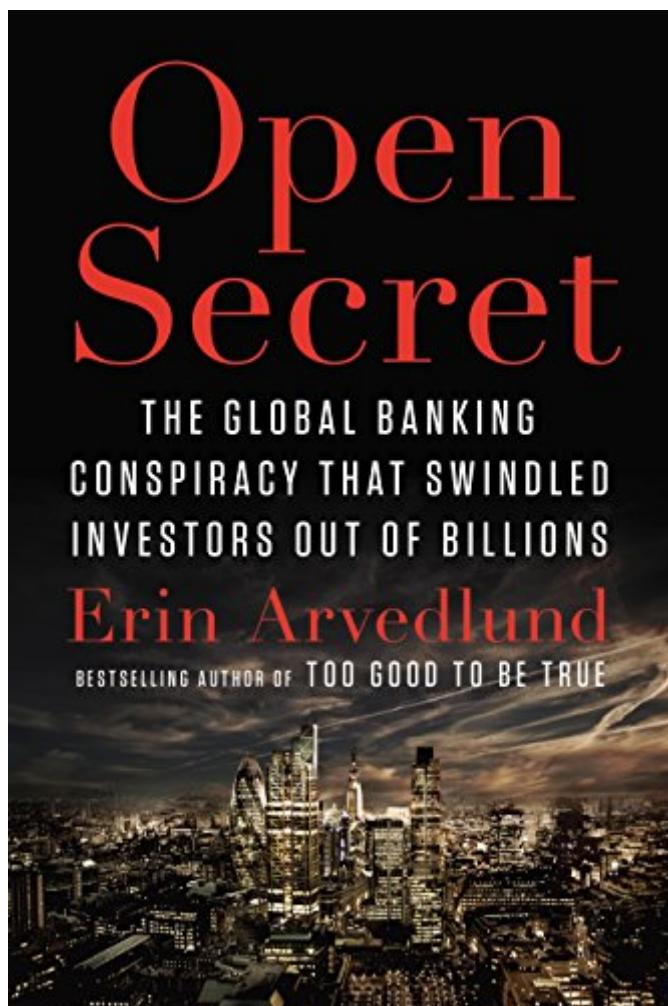


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Open Secret: The Global Banking Conspiracy That Swindled Investors Out Of Billions



Synopsis

â œGaming the LIBORâ "that is, fixing the price of moneyâ "had become just that: a game. Playing it was the price of admission to a club of men who socialized together, skied in Europe courtesy of brokers and expense accounts, and reaped million-dollar bonuses.â •In the midst of the financial crisis of 2008, rumors swirled that a sinister scandal was brewing deep in the heart of London. Some suspected that behind closed doors, a group of chummy young bankers had been cheating the system through interest rate machinations. But with most eyes focused on the crisis rippling through Wall Street and the rest of the world, the story remained an â œopen secretâ •among competitors. Soon enough, the scandal became public and dozens of bankers and their bosses were caught red-handed. Several major banks and hedge funds were manipulating and misreporting their daily submission of the London Interbank Offered Rate, better known as the LIBOR. As the main interest rate that pulses through the banking community, the LIBOR was supposed to represent the average rate banks charge each other for loans, effectively setting short-term interest rates around the world for trillions of dollars in financial contracts. But the LIBOR wasnâ ™t an average; it was a combination of guesswork and outright lies told by scheming bankers who didnâ ™t want to signal to the rest of the market that they were in trouble. The manipulation of the â œworldâ ™s most important numberâ •was even greater than many realized. The bankers kept things looking good for themselves and their pals while the financial crisis raged on. Now Erin Arvedlund, the bestselling author of *Too Good to Be True*, reveals how this global network created and perpetuated a multiyear scam against the financial system. She uncovers how the corrupt practice of altering the key interest rate occurred through an unregulated and informal honor system, in which young masters of the universe played fast and loose, while their more seasoned bosses looked the other way (and would later escape much of the blame). It was a classic private understanding among a small group of competitorsâ "you scratch my back today, Iâ ™ll scratch yours tomorrow. Arvedlund takes us behind the scenes of elite firms like Barclays Capital, UBS, Rabobank, and Citigroup, and shows how they hurt ordinary investorsâ "from students taking out loans to homeowners paying mortgages to cities like Philadelphia and Oakland. The cost to the victims: as much as \$1 trillion. She also examines the laxity of prominent regulators and central bankers, and exposes the role of key figures such as: Â Tom Hayes: A senior trader for the Swiss financial giant UBS who worked with traders across eight other banks to influence the yen LIBOR. Bob Diamond: The shrewd multimillionaire American CEO of Barclays Capital, the British bank whose traders have been implicated in the manipulation of the LIBOR. Mervyn King: The governor of the Bank of England, who ignored U.S. Treasury secretary Tim Geithnerâ ™s repeated recommendations to establish

stricter regulations over the interest rate. Arvedlund pulls back the curtain on one of the great financial scandals of our time, uncovering how millions of ordinary investors around the globe were swindled by the corruption and greed of a few men.

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Customer Reviews

Not sure how Erin threads together a staggering sum of content and makes it read like a Dan Brown novel, but she did. That's Erin working her usual wizardry. Would you expect something less after her blockbuster novel on Madoff? Short answer - emphatic 'no'. I was particularly struck by the latter chapters in the book. This will hit quite close to home for most of us. This section on the impact to schools and mass transit proves quite convincingly that LIBOR IS the worlds most important number.

I was expecting much more from this book or maybe even from the history itself. The first chapters are good but then it becomes a kind of "he said" and "he said" etc As it if wasn't enough to have all this scam between the traders of the biggest banks, It's also shocking to know that even the British

authority (BBA) was involved in this too. I've found on the net the very much same history , and on some occasions, even with more details than in the book. It's Ok. You can find the whole history in websites like Bloomberg, economist etc.

Product arrived on time; was as expected.

A very readable account of traders inside money-center banks playing by their own rules. It makes one wonder what scheme is being played out right now that the public doesn't know of.

A good piece of work uncovering a dark history in the world of finance . Amazing how corrupted this whole industry is.

Makes you cringe thinking that these few rich #@\$#%#! have power to completely defraud us because they can! We need Public Banks like the Bank of North Dakota has since 1919. Time to because financially literate and fix these very fixable power problems!

Regrettably far too many in the world of financial media neither grasp nor get the green light to pursue and expose the deep inner workings of Wall Street and related global financial centers. Then there is Erin Arvedlund. Erin not only understands the ways of Wall Street but she has the courage and character to dig deeply for the real story across the entire landscape. She also has the unique ability to traverse what are often highly technical and convoluted concepts and multiple layers of relationships and translate it all in a layman's narrative. Open Secret lays bare the widespread conspiracy that went on for an extended stretch both pre and post crisis of 2008. Arvedlund names names and provides extensive supportive documentation that would make any jury return a verdict of "guilty as charged" in very short order. And why is it that that verdict has not been rendered? Because as Ms. Arvedlund lays out in spades the central bankers and regulators were central to the racket. Read this book and you will never look at the markets in the same light again.

In today's complex financial world, borrowing rates are all around us, implicit in everything from our credit cards to our mortgages. Many of these ubiquitous financial products share a common reference rate, the London Interbank Offered Rate (or LIBOR), which represents banks' near-term funding costs, and is a short term interest rate benchmark against which many floating rate loans are priced. So it's important. But what is it exactly? As I

learned, LIBOR is simply an aggregate of the rates at which a handful of British banks estimate they could borrow from other banks. Sounds straightforward, but at a granular level what does that mean? Thus the stage is set for the big swindle. Examining how these rates are set and manipulated is the topic of *Open Secret: the Global Banking Conspiracy that Swindled Investors out of Billions*, by Erin Arvedlund, a financial journalist with the Philadelphia Inquirer. At a deeper level, this is a story about how the growth of global borrowing markets and financial instruments created a web of incentives that drove criminal behavior at money center banks. What I like about the book? I enjoyed in this book the same things I enjoy in a good Michael Lewis book: salty language, strong personalities, and outrageous behavior. It's a great combination. Arvedlund creates a narrative flow that makes otherwise impenetrable subject matter read like a spy novel. She not only has a grasp of the financial details, but she also spins a good yarn as she lays out the history of LIBOR, and the events and people that shaped it. In 1970, while soaking in a bathtub, an American named Evan G. Galbraith dreamed up the idea of a floating rate note, and shortly thereafter "LIBOR" appeared in a prospectus for the first time. From its modest beginnings, LIBOR took off in popularity, based on necessity and good marketing, expanding across borders, into larger deals, and into pricing for a range financial products such as home loans and credit cards, currency options, and later into the gigantic market for swaps. LIBOR, however, had a critical flaw from the beginning. The process for establishing LIBOR rates was based on an unregulated honor system, using an improvised, Rube Goldberg-esque, self-reporting arrangement. I had never heard it laid out so explicitly as Arvedlund does here, but in the early days, the reporting apparatus of the banks typically consisted a couple of guys sitting around an office over sandwiches consulting some rates and literally taking a stab at it. That's it. And here's the thing: that never really changed as LIBOR's use grew. It never became a regulated or formalized process, despite its increasing role in financial markets. So this was the basic dynamic from the beginning.

Arvedlund has done some reporter-like digging on these beginnings and how this turned into a very big problem, and while the stark reality is quite stunning, it's also somewhat understandable, given LIBOR's informal roots. A clubby approach like this was probably fine early on, and indeed the system seemed to work well for many years, but as LIBOR became more and more influential, incentives began to play a greater role. Arvedlund explains how the banks began to be afraid of appearing at the high end of the range of estimates, since this sometimes raised solvency/stability questions, which then appeared in the press. As a result, the banks began to artificially lower the rate they reported, so as not to appear to be in trouble. But the real conflicts came from trading activity. In banking there's a so-called "chinese wall" between the buy

and sell side. For instance, when I was on the sell side at GE Capital, we were instructed not to talk to our buy side, who were transacting in the bonds of sell side client companies. If the traders got wind that a company were about to issue a piece of high yield debt, they might be tipped off to trade the more senior bonds, which would be affected when this occurred. GE Capital took this very seriously. We even had creative code names for the deals to maintain secrecy. In the case of LIBOR, there was no such wall. Or rather, there was supposed to be a wall, but it was effectively ignored. The buy side traders would literally send a chat or email to the guys setting the rate and tell them where they needed the rate to be in order to maximize trading profits. Arvedlund details numerous emails, chats and communications showing how the traders worked the system. Some of these were borderline hilarious, including a description of how Colin Goodman, or "Lord LIBOR," published a heavily manipulated daily suggested LIBOR list, but became miffed when traders ended up making all the money and he wasn't getting compensated for his help. Poor Lord LIBOR couldn't get paid. Why he wasn't more concerned with getting thrown in prison, is unclear (and which, given recent alarming reports in the press, may still occur for poor Lord LIBOR). By 2008, with LIBOR impacting markets at the global level, including the commodities and multi-hundred trillion dollar swaps market, and the financial crisis underway, the Wall Street Journal ran a piece with the heading, "Study Casts Doubt on Key Rate: WSJ Analysis Suggests Banks May Have Reported Flawed Interest Data for Libor." Suddenly, the cat was out the bag, and central banks and regulators began to pay close attention. Arvedlund does a great job of giving a sense of the drama as this story unfolded, of the competing interests, and of the personalities involved. The dogged Wall Street Journal reporters. The central banker protocols. In particular, the British central banker Sir Mervyn King came across as turning a blind eye as well as being somewhat inept and feckless. The British Bankers Association, which had actually trademarked LIBOR, seemed more focused on maintaining control of the rate than on solving collusion problems. And many more. Arvedlund describes how Tim Geithner, who was the New York Fed President and later became Treasury Secretary, pushed King to reform LIBOR and even provided a list of bullet point suggestions for how to address the issue, but was initially rebuffed. After all, LIBOR represented prestige and was a cash cow for the British financial establishment. LIBOR was also, however, the elephant in the room: everyone knew it was there but no one wanted to talk about it. Another central figure in the scandal was Barclays' CEO, Bob Diamond. While Diamond comes across as upbeat and charismatic, he displayed a rapacious hunger for success and pay at odds with his easy-going persona and a staid British banking culture. Although it was Barclays' who purchased Lehman Brothers out of bankruptcy, thus preserving an

important element of the broader financial system, Diamond was forced to resign in 2012 after an investigation into LIBOR and public outrage. A key player who drove this resignation was Gary Gensler, head of the Commodity Futures Trading Commission. He pushed to scrap LIBOR throughout his tenure, appearing before congress over 50 times, but when faced with a sustained industry backlash eventually backed down. In the end, LIBOR survives today, and still plays an important role in financial markets, but it is more strictly regulated than before. The irony is that despite the substantial damage caused by LIBOR rigging, which cost investors billions, it was an uphill battle all along to reform LIBOR. Nevertheless, it is undoubtedly a more reliable benchmark than previously.

Constructive Criticism

After a good punchy beginning, the story kind of trailed off during the chaos of the financial crisis, the back and forth on discussions about the problem and how to fix it, and the efforts of the various regulators. I feel like Arvedlund lost the compelling narrative drive that made the beginning of the book especially good. Perhaps the subject matter became so sprawling that story necessarily became diffuse. Also, given the overall complexity of the situation, I can understand how it would be difficult to maintain a simple, coherent narrative. Also, early on in the book, I was curious about how the trades worked, and I wished there had been some concrete examples of trades and specifically how manipulation made them profitable, although this could just be my personal bias as someone who wants to know how every finance transaction works.

Finally, in many stories, there is often a crisp resolution, but this resolution was decidedly murkier than I would have preferred. But that's probably not Arvedlund's fault. LIBOR today remains flawed in many ways, but then perhaps the story of LIBOR could never have a clean ending; this has nothing to do with Arvedlund's skill. At the end of the day, LIBOR includes so many elements of subjectivity in reporting and estimation that can never be fully resolved or eliminated, that there will never be a clean solution everyone can agree on that renders it somehow "fixed" in the traditional sense.

Summary: Although the ending of "Open Secret" left some loose ends for me, the book offers a extraordinary view into the inner workings of the financial system, LIBOR, and the forces striving to maintain a level playing field. If you enjoy Michael Lewis, I'm confident you'll like Erin Arvedlund. Her assiduous research into the LIBOR scandal, including the deep background, the blatant gaming of the system, and the cast of characters, made for a compelling read. Although it was surprising to learn about the nuts and bolts of how LIBOR is set, and read the actual communications between traders, it was also enlightening. I got a sense for why this happened. People just want to make money. Having read cursorily about LIBOR in the press over the past few years, I had been left with many questions, but Arvedlund's account answered those questions, and provided me with an intuitive understanding of how we got to where we are today. While the dust is still settling on the

LIBOR scandal, and law suits are still playing out in the press, with more fines and prison sentences potentially to follow, if you are curious about LIBOR, "Open Secret" is a wonderful resource and an entertaining explanation of the LIBOR system, which continues to play a profound role in financial markets.

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