

BACK TO BUSINESS



THE VIEW
RICHARD HARRIS



Dog eat dog world

Young traders, who lack the life experience to judge risk, are given positions of great responsibility

Tom Hayes, former employee of UBS, Citibank and other fine institutions was recently sentenced in Southwark Crown Court in London to 14 years in prison for manipulating the Libor fix. This is the daily benchmark interest rate fixing that is the reference rate for trillions of US dollars of interest-rate based products derived, in short, by averaging reference quotes of interest rates in different currencies by a number of banks.

A slight move up or down at the end of the day could mean significant profit or reduced loss on positions held in the traders' book. Hayes was a good networker and he was found to have manipulated it by calling favours from those banks making the quotes - just enough to skew things in his direction.

A sentence of 14 years is high by any measure. In the Murder Sentencing Manual produced by the UK Crown

Prosecution Service, rape would get a maximum of five years in prison and provoked manslaughter 10 years. The Court sent a signal that persistent and deliberate manipulation of the markets is not acceptable.

Hayes got his way by appealing, bullying, cajoling or taking his counterparties out for dinner. He could conceivably save millions of dollars on the back of a curry and a few beers. He could also pay extra commission, some may say bribe, to his counterparts to amend their pricing. He was successful, helped by his cheating. In market parlance, he was a big swinging dick (BSD).

Hayes was portrayed by his banks and in court as a lone wolf but you can't authorise the purchase of a pencil these days without a slew of signatures from your horses and a flurry of counterchecks by an army of back office accounts staff. Extra payments to

brokers are clearly something that would have needed a long paper trail of evidence.

So it seems strange for the court, and indeed investigators, to imply that he was doing it on his own. Dealing desks are open places. A bullying trader holds all the eyes - although it may also make some blind or frightened to cry "misconduct" at those at the pointy end of the revenue stream.

Perhaps Hayes was so clever that he was able to get the organisation to work for him. To get anything done efficiently at a big bank you have to fool the system in thinking it is doing something else, like getting a computer to work. In one of my bank employers, our assistants would describe hotel laundry expenses as "pressing". Pressing a shirt was allowed, but laundry could only be claimed if you had been a week on the road.



Former UBS trader Tom Hayes.

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It's dog eat dog on the trading floor. We send the young to war as soldiers, for they are fearless and take instinctive risks. Most traders will tell you that it is a young man's job. But the taking of risk is also a matter of judgment that requires skill, training, and life's experiences.

Hayes was a 28 year old and 32 when arrested. He had the ability to make or lose hundreds of millions of US dollars for the bank even though he will have had limits on his position taking.

A commercial pilot will not get to command a large aircraft for many years. The average age of a US airline pilot is 49 and 11 months. If anything happens to an aircraft - as with a bank - the company suffers enormous financial and reputational damage.

Yet banks continue to put traders in positions of great responsibility with five years working experience and an unprestigious university degree.

Beginners' luck could make you a BSD. It seems incredible that Hayes was

so extraordinarily clever that even in his mid-twenties he thought up such a dastardly scheme by himself, when the market is full of banks, which are full of such young turks?

It also seems extraordinary that in a task which requires such fine judgment and control that it should put in the hands of a junior employee who may not understand that taking risk is not for BSDs but comes with a responsibility to your colleagues, to your bank, to the financial system. Meanwhile, their bosses (who have the experience) go to meetings and approve expense policies.

Surely it is not hard to train traders like a pilot for 10 years or more, and keep them working on the desk into their 50s. No other industry like banking has the capacity to throw away hard-earned experience. The compensation for a traders' job is attractive at any age.

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Illustration: Kaitz Lee