IRHP's – Bank and regulatory fraud?

Presented by

Paul Carlier

I need to make it clear that:

a) I never make an allegation or complaint unless I believe that I am right

and

b) I never make an allegation or complaint unless I believe that I have the evidence to demonstrate or prove it

That applies to this presentation.

If I am expressing an ‘opinion’ or a conclusion, then I will establish that, and the grounds and/or evidence for drawing that conclusion.

Lloyds Banking Group – IRHP (Interest Rate Hedge Product) Criminality

An introduction to Ground Zero

Prior to the Financial Crisis, banks had been seeking ways to increase revenue within an increasingly competitive lending market that was 'squeezing' lending margins, and in order to meet profit targets that were increasing year to year and by significant %'s.

The competitiveness of the market was forcing banks to lend at ever increasing low margins. For example, the businesses owned by Julia Davey had facilities that were typically LIBOR +1.1% or in that region.

So, the banks sought to sell additional products to boost revenues, often as we see in IRHP cases, making the purchase of a 'Hedge' a condition of the lending.

Like buying a new car, with every additional product, or every additional feature, there is a healthy profit margin (or Mark Up) for the vendor.

Hedging, by definition, is ***'the reduction or removal of risk'.*** Much like insuring a car.

When insuring a car, you pay a fixed premium or cost. The Interest Rate Hedging equivalent is a Cap. A Fixed one-off cost product that removes or reduces risk.

When insuring a car, there are no options whereby you could offset some of the Fixed one-off cost, by you the customer, selling your insurance company insurance on the car of a third party.

Of course there isn't. Because doing this would mean that you the customer has negated the risk you have on your car, but exposed yourself to an entirely new risk that you did not have prior to seeking insurance.

This is the equivalent of a 'Collar'; You buy insurance against a rise in interest rates, but you sell insurance to the bank against a fall in interest rates.

This is not a 'Hedge', and does not meet the universal definition of a Hedge and neither does any other form or IRHP that involves a risk to the customer.

Indeed, in Foreign Exchange (FX), the equivalent derivative to a Collar is called a ***'Risk Reversal'.***

The clue is in the name.

This product 'reverses the risk', replacing one risk with another.

A Collar was NEVER an actual 'Hedge'
A Collar was NEVER an appropriate product to sell to any SME

Indeed, as a former Director of Lloyds Banking Group and Senior FX Trader I can confirm that I and my team, with many years of experience, were only permitted to buy derivatives that were the equivalent of 'Caps'

We were PROHIBITED from 'selling' any Derivative full stop, or buying any derivative, such as a 'Risk Reversal' that incurred ANY risk.

But they would gladly sell such products to SME's with no experience.

Buying a Collar made no sense relative to the alternative of buying Caps or entering into a Fixed rate loan or facility.

However, it makes perfect sense for the bank from a revenue generation perspective. Caps are a simple product with just a single component.

WHEREAS, a Collar contains two components (Cap and Floor).

Just like selling a car, with every ‘component’ there is a Mark Up opportunity.

A bank could therefore almost double its revenue by way of point of sale ‘Mark Up’, but keep the ‘Premium’ for the customer either the same as a Cap or even less, by way of manipulating the strikes (The prices at which the Cap and the Floor are set), creating the illusion of ‘value’ to the customer.

However, in order to present the illusion of value, the bank and their sales persons had to overcome a significant obstacle……

Initial Margin Requirement

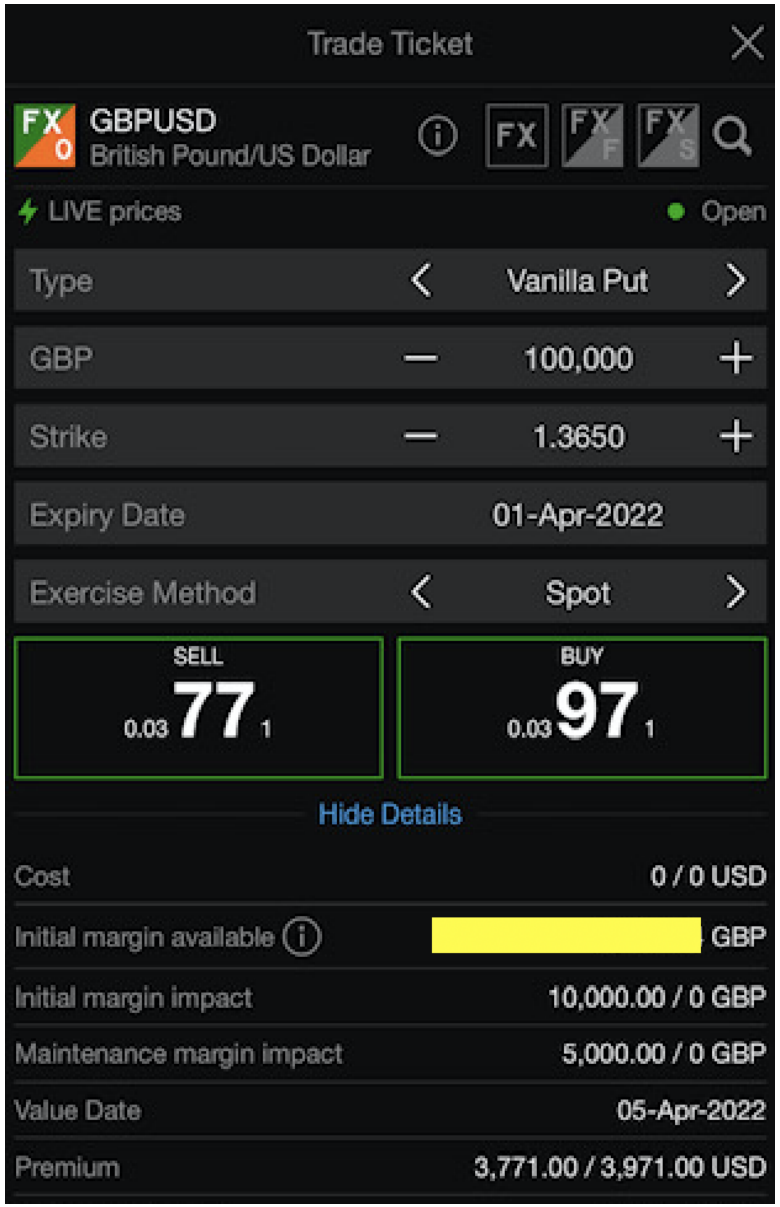
And

Variation Margin Requirement

Any time that any customer ‘buys’ any product where the customer is exposed to risk, there is a Margin Requirement.

To determine the monetary value of this Margin requirement, a calculation takes place by the bank that determines the potential risk, or contingent liability of this product to the customer, and consequently the liability of the bank by way of ‘counterparty risk’. (I.E. If the customer does not have the money to pay for any resulting losses)

The bank then seeks from the customer the required amount as ‘security’ to cover this liability or potential liability.



This is a trade window from the Saxo platform that I use. This is for a GBP vs USD Put Option. This would be the equivalent of a Floor.

If I choose to buy this Option to sell GBP vs USD with a 1.3650 strike for one year, I will have to pay a premium of £3,971.00. Because I am buying this Put which is insurance against a move lower in GBP, you can see that the Initial Margin Impact is 0 GBP. There are no risks for me.

WHEREAS if I want to sell this 'insurance' I will receive £3,771.00 BUT that if I want to sell it, I will have to put up £10,000 Initial Margin to cover the potential liabilities that I might incur.
It's an absolute requirement and MUST be disclosed.

This presents a real problem for the bank when selling Collars or other Toxic high risk IRHP's to customers.

Why?

Because the bank has to ask the customer to place on account with them the money demanded by the Initial Margin requirement.

Or the bank has to sell the customer that they MUST provide additional security to the bank to cover the value of this Initial Margin requirement.

To do this, would guarantee that no customer, sophisticated or otherwise, would EVER buy the product.

So, the bank didn't tell them about the Initial Margin Requirement.

And the bank simply took out a credit line or facility in the name of the customer, or took a charge over a property or asset to the value of the Margin requirement ….. **And concealed it from the customer.**

However, they also concealed the existence of ‘Variation Margin’.

Over the term of the product, as the underlying interest rate moves, so the risk of the product changes, and so the contingent or potential risk changes.

If the risk increases, in this case as interest rates fall, so the contingent liability rises and therefore so does the Margin requirement. This would mean the customer would receive a ‘Margin Call’ and be required to place additional cash on account or provide other additional security to cover the increased risk.

Having concealed Initial Margin requirement and concealed the hard credit lines or security taken out to cover the initial margin, the bank could not exactly issue the margin call or ask for more cash or security from the customer.

So, they simply increased the value of the concealed hard credit line or the value of the other security they had taken.

And still the customer had no idea of the existence of any of these facilities or security.

Case study – So as to demonstrate exactly this in action

In 2007, Angelic Interiors, a company owned by Julia Davey, and who banked with Lloyds took out a £20mio credit facility.

The Relationship Manager presumed that they would satisfy the Hedging requirement by once again buying Caps, and that a sales person from Lloyds Treasury would be in touch.

Below is the initial pricing email from the Lloyds Treasury sales person providing pricing for the Caps.

Please note that his email declares 5 year fixed rates were 5.93% at the time.

As we discussed, the bank of England has put base rate up again today, a further 0.25% to 5.50%. Whilst the official Lloyds TSB view is that this is likely to be further rises this year, the market appears to be pricing in a further 0.50% rise! This has a knock on effect to short term pricing and we have seen 5 year money rise over the first part of the year. As an indication, 5 year fixed money is @ 5.93%. !!

In simple terms you pay more each month for the interest of the fixed rates or pay up front for the "insurance" and flexibility of a CAP.

1% Monthly Caps £150K p/a

Cap pricing is as follows

£15m	5 years / quarterly against 3mth LIBOR.	Strike at 6.25%	Premium	£173,000
£15m	5 years / quarterly against 3mth LIBOR.	Strike at 6.50%	Premium	£141,000

However, on an entirely unsolicited basis, the sales person goes on to say….

”In order to reduce the cost……” and introduces a Collar.

In order to reduce the cost, you could give up the right to benefit from rates falling below an agreed level, i.e. a COLLAR. This is where you have a known minimum and maximum interest rate you will pay. As an example of current levels:

£15m 5 years / quarterly against 3mth LIBOR.
CAP 6.25%
FLOOR 5.25% * this is the lowest level you will pay. If rates fell to say 4.50%, you would still pay 5.25% to the bank.

At this time the FCA register shows that this sales person was highly qualified. Yet he introduced a product entirely on the basis of cost reduction without mentioning the margin requirements or fully explaining the risks, and they knew they were dealing with a retail or non-sophisticated customer at this time.

Lloyds Bank PLC

CF21 Investment Adviser

From 14 May 2004 to 31 Oct 2007

So, did the bank provide this retail customer with any information about the Collar prior to the sale?

Yes.

Indeed, they list multiple ‘Benefits’ but no downsides. Instead, they list just two “Points to consider”.

Neither includes the the existence of the concealed credit line, the potential risks or the actual requirement of Initial Margin.

Lloyds TSB | Corporate Markets

Base Rate Collar

Overview

A Base Rate Collar protects the customer against interest costs rising above a pre-agreed maximum level, the *cap strike*, but also sets a minimum level below which interest costs can not fall, the *floor strike*.

Under the collar, the customer obtains protection from Lloyds TSB covering a pre-agreed *notional* amount over a specified length of time, with pre-set cap and floor strikes. For each day that the prevailing Base Rate is above the cap strike, Lloyds TSB pays the customer interest calculated as the difference. For each day that the prevailing *Base Rate* is below the floor strike, the customer pays Lloyds TSB the difference. Payments are made at the end of each *interest period*. If the prevailing Base Rate is between the floor strike and the cap strike, then no payment is made.

The parameters of the contract are flexible and can be tailored to fit the customer's requirements.

Benefits

- The maximum debt servicing cost is known up front.
- Gives protection against Base Rate rising above the cap strike.
- Allows the customer to benefit from any fall in floating rates between the cap strike, and floor strike.
- Parameters are usually set to negate the premium.
- Allows customer to budget interest costs accurately.
- Can be tailored to fit required debt profile.
- If a premium is payable this can be spread over the life of the contract.

Points to Consider

- A premium may be payable.
- Any amendment to the contract may result in a cost to the customer.

Example

A typical Base Rate Collar may have the following parameters:

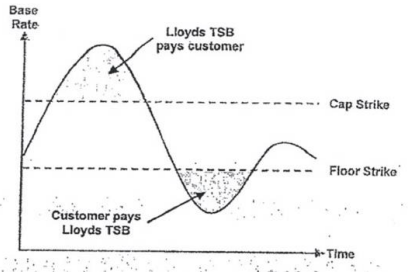
Notional:	£1m
Term:	3 years
Cap Strike:	5.50%
Floor Strike:	4.50%
Floating Reference Rate:	Lloyds TSB Base Rate, observed daily
Resets:	Daily
Settlements:	Quarterly
Premium:	Nil

Possible Outcomes

The table below shows the net settlements due during each interest period:

Result	Base Rate is:	Outcome for customer:	Payment:
1	6.00% i.e. Above cap strike of 5.50%	Lloyds TSB pays customer	Lloyds TSB pays (6.00% - 5.50%) x notional x day-count fraction
2	5.00% i.e. Between cap strike and floor strike	No payment made under collar	Nil
3	4.00% i.e. Below floor strike of 4.50%	Customer pays Lloyds TSB	Customer pays (4.50% - 4.00%) x notional x day-count fraction

Cashflow Representation



When the trade was eventually struck, here is the confirmation.

Thank you for your instruction this morning. I pleased to confirm we have booked the following Interest rate collar. Formal confirmation will follow in the next few days:

Trade details:
£20m Collar: starting today for 5 years: against 3 month LIBOR:

CAP	@	6.50%
Floor	@	5.50%
Premium		£132 000

The sales person had actually sold them a £20mio Collar when the hedging condition required only £15mio

He had also sold them a 5 year Collar, when the facility it was supposed to hedge was only a 3.5 year facility. More on this later.

There is no mention of the Initial Margin Requirement, and no mention of any Hard credit line taken out by the bank in the name of the customer to cover the value of this Initial Margin requirement.

Did the sales person and the bank know that there was an Initial Margin & Variation Margin requirement before and at the point of sale. Yes, they did.

Indeed, I refer you to the extract below from an internal note authored by an LBG credit analyst, to National Head of CMC at LBG.

In May the final sign off was for a 5 year revolving loan of £40m, an increase from £20m, which originally commenced in 9/2006 to expire in 9/2011. In addition a £2m FMD line was agreed to facilitate 75% hedging for the whole of the debt. This has subsequently been taken up to a liability of £2.25m to cover a £20m Collar for 5 years. The first £20m loan is covered by a £20m cap facility which incurs no FMD liability.

Only obtained years after the Credit Line was obtained and years after the business was forced into administration

However, you can clearly see that a hard credit line of £2.25mio was taken out in the name of Angelic Interiors solely to cover the the liability on the £20mio Collar.

Helpfully, the note also confirms that for a Cap there is no such liability.

Furthermore, extracts from Minutes of a Lloyds CMPCC meeting to discuss the credit approval records the following.
It confirms that the bank is including the £2mio hard credit line (increased to £2.25mio shortly thereafter) within their LTV (Loan To Value) calculations.
This is important, because it references the 80% LTV requirement that the business is bound to observe.

Angelic Interiors Ltd.

Extract from the Minutes of the CMPCC Meeting Dated 03/04/2007

To Accompany the Decision Record Dated 03/04/2007

Angelic Interiors Ltd. ("AIL") – Residential Property Investment

- Sanction is sought for total facilities of £42m (£20m), all of which is hard
- The increase relates to an additional £22m which will be used to finance the expansion of AIL's residential property, at 80% LTV, which provides housing to

How does this business, or any other with strict LTV obligations or covenants, abide by these obligations when the bank is concealing credit facilities from it, but where the bank is using those facilities in its own LTV calculations?

However, and perhaps just as importantly, these minutes also contain this extract:

- *Rating* – the CMPCC requested clarity as to whether a facility rating of 1 or 2 was appropriate. Alan Higbey ("AH") explained, as AIL hedge their risk via Base Caps and not Swaps, they are not exposed to hedging liability. Thus, AH suggested that a facility rating of 1 is appropriate.

Here we see the Relationship Manager, who was presuming that Angelic would buy Caps, suggesting that the Angelic be afforded the highest possible credit rating of 1, and because ***'they are not exposed to hedging liability'.***

This proves that the bank knew that any business that owned a Collar was subject to significant risk and, as a consequence, their credit profile was adversely impacted.

What it also meant was that all other banks would understand this. So, if a customer that owned a Collar or other toxic product, tried to escape their banks clutches and find alternative banking arrangements, they couldn't because no other bank would want the risk that they knew existed.

This adverse credit profile impact was also concealed from customers.

Before proceedings let's consider this question:

Angelic Interiors was sold a Collar for £132,000
WHEREAS, they were initially quoted £140,000 for the Caps

Do you believe they would have bought the Collar to make a modest saving, if the bank had also said that which they were bound to say:

"OK then, in order to enjoy that modest saving, you need to give us £2.25mio cash to satisfy the Initial Margin requirements for this product, and that we will hold on account for the 5 year duration of that product and that you cannot touch for that 5 year period."

"Oh, and just so you know, if interest rates fall we will have to ask you for even more cash by way of a margin call."

Nobody is EVER going to agree to that, and let's be clear, no reasonable person is ever going to agree to that.

But this also means that the banks also absolutely knew this.

They also knew that this would mean they wouldn't get to enjoy the greater mark ups on the Collar or other toxic products.

That's why they concealed it, and that, in my opinion, makes it fraud by false representation, fraud by abuse of position and fraud by failing to disclose information that they had an obligation to disclose and with INTENT to make financial gain.

They absolutely knew what they were doing and why.

To be clear here, the bank introduced and sold this product entirely as a means for the customer to 'reduce costs'. That is entirely false because they would have known that the existence, and costs to service, of the Margin Requirement would have more than negated any saving in terms of premium cost.

In March 2009 Interest rates collapsed, and below are the actual costs that Angelic incurred each quarter as a result of the Collar.

		Notional	Curve 01/10/10	Libor Fixings	Achieved Rate	Payment
27-Sep-07	27-Dec-07	20,000,000		6.316%	6.316%	0
27-Dec-07	27-Mar-08	20,000,000		6.046%	6.046%	0
27-Mar-08	27-Jun-08	20,000,000		6.004%	6.004%	0
27-Jun-08	29-Sep-08	20,000,000		5.945%	5.945%	0
29-Sep-08	29-Dec-08	20,000,000		6.261%	6.261%	0
29-Dec-08	27-Mar-09	20,000,000		2.815%	5.500%	(129,468)
27-Mar-09	29-Jun-09	20,000,000		1.683%	5.500%	(196,595)
29-Jun-09	28-Sep-09	20,000,000		1.191%	5.500%	(214,847)
28-Sep-09	29-Dec-09	20,000,000		0.543%	5.500%	(249,881)
29-Dec-09	29-Mar-10	20,000,000		0.605%	5.500%	(241,397)
29-Mar-10	28-Jun-10	20,000,000		0.647%	5.500%	(241,976)
28-Jun-10	27-Sep-10	20,000,000		0.730%	5.500%	(237,831)

As you can see from the above table, Angelic suffered losses from March 2009 to September 2010 totalling £1,511,995.00.

There are significant additional consequences for Julia Davey's businesses as a result of this Collar. It would drive Lloyds & HBOS to collude (the banks were still operating under two separate banking licences at that time making it collusion) to try and secure a cross guarantee from another of her businesses, Angel Group, that banked with HBOS, so as to cover the risks they knew that Angelic now had.

She refused and so the bank engineered what we now know to have been a 'fake' default on her other business Angel Group in September 2009, and so that they could force both businesses into BSU, whereby they believed they would inherit the rights to 'co-mingle' the affairs and assets of the two businesses, and obtain the security they wanted. More on that another time.

Let's jump forward to September 2010 when both businesses were in BSU

Below you can see the table showing the quarterly costs we saw previously.

However, I want to draw your attention to the 'Break Cost' of £1,770,517. Angelic had already paid the £1,511,995 in hard cash to cover those quarterly costs.

29-Dec-08	27-Mar-09	20,000,000		2.815%	5.500%	(129,468)
27-Mar-09	29-Jun-09	20,000,000		1.683%	5.500%	(196,595)
29-Jun-09	28-Sep-09	20,000,000		1.191%	5.500%	(214,847)
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29-Mar-10	28-Jun-10	20,000,000		0.647%	5.500%	(241,976)
28-Jun-10	27-Sep-10	20,000,000		0.730%	5.500%	(237,831)
27-Sep-10	29-Dec-10	40,000,000	0.732%	0.732%	Break cost:	(1,770,517)

The Break Cost is the cost it would take to buy their way out of this Collar at this time.
HOWEVER, the facility that this Collar was bought entirely so as to Hedge was due to expire in January 2011, just four months from now.

Had the maturity of the Collar matched the maturity of the facility, Angelic would have only had one more quarter to pay, approx. £240,000, and that would have been it. They would've been out.

As it was, they faced another twenty months and over £1.7mio in break costs, or a further £1.848mio in further quarterly costs, as this projection shows.

29-Dec-08	27-Mar-09	20,000,000		2.815%	5.500%	(129,468)		
27-Mar-09	29-Jun-09	20,000,000		1.683%	5.500%	(196,595)		
29-Jun-09	28-Sep-09	20,000,000		1.191%	5.500%	(214,847)		
28-Sep-09	29-Dec-09	20,000,000		0.543%	5.500%	(249,881)		
29-Dec-09	29-Mar-10	20,000,000		0.605%	5.500%	(241,397)		
29-Mar-10	28-Jun-10	20,000,000		0.647%	5.500%	(241,976)		
28-Jun-10	27-Sep-10	20,000,000		0.730%	5.500%	(237,831)		
27-Sep-10	29-Dec-10	40,000,000	0.732%	0.732%	Break cost:	(1,770,517)	5.500%	(242,985)
29-Dec-10	28-Mar-11	40,000,000	0.787%	0.756%			5.500%	(231,369)
28-Mar-11	27-Jun-11	40,000,000	0.825%	0.816%			5.500%	(233,546)
27-Jun-11	27-Sep-11	40,000,000	0.905%	0.825%			5.500%	(235,671)
27-Sep-11	28-Dec-11	40,000,000	1.013%	0.941%			5.500%	(229,811)
28-Dec-11	27-Mar-12	40,000,000	1.162%	1.078%			5.500%	(218,081)
27-Mar-12	27-Jun-12	40,000,000	1.319%	1.032%			5.500%	(225,261)
27-Jun-12	27-Sep-12	40,000,000	1.477%	0.898%			5.500%	(231,985)
27-Sep-12	27-Dec-12	40,000,000	1.635%	0.604%				
27-Dec-12	27-Mar-13	40,000,000	1.808%	0.516%				
27-Mar-13	27-Jun-13	40,000,000	1.973%	0.507%				
27-Jun-13	27-Sep-13	40,000,000	2.125%	0.510%				
				Total Cashflow:		(1,511,995)		(1,848,709)

This situation existed entirely because of the mismatched maturity dates. Rather than remedy this, the bank instead leveraged this situation.

They sold Angelic a £40mio new Structured IRHP on the promise of a new facility and as a means of them not having to pay the £1.7mio break costs of the existing Collar.

After selling them the new £40mio Structured and more toxic IRHP, the bank would claim that there was no new facility.

This cannot be true. If credit department had approved the new £40mio IRHP, they MUST also have approved the new facility that this new IRHP was to hedge.

There cannot be one without the other. If there was no new facility, then this IRHP should have been torn up immediately.

It wasn't, and, as you can see, would cost Angelic £2,931,662, far more than the break cost of the previous Collar.

27-Sep-10	29-Dec-10	40,000,000	0.732%	0.732%	1.900%	(119,065)
29-Dec-10	28-Mar-11	40,000,000	0.787%	0.756%	1.900%	(111,615)
28-Mar-11	27-Jun-11	40,000,000	0.825%	0.816%	1.900%	(108,078)
27-Jun-11	27-Sep-11	40,000,000	0.905%	0.825%	1.900%	(108,384)
27-Sep-11	28-Dec-11	40,000,000	1.013%	0.941%	3.250%	(232,773)
28-Dec-11	27-Mar-12	40,000,000	1.162%	1.078%	3.250%	(214,243)
27-Mar-12	27-Jun-12	40,000,000	1.319%	1.032%	3.250%	(223,673)
27-Jun-12	27-Sep-12	40,000,000	1.477%	0.898%	3.250%	(237,120)
27-Sep-12	27-Dec-12	40,000,000	1.635%	0.604%	4.476%	(386,164)
27-Dec-12	27-Mar-13	40,000,000	1.808%	0.516%	4.476%	(390,551)
27-Mar-13	27-Jun-13	40,000,000	1.973%	0.507%	4.476%	(400,174)
27-Jun-13	27-Sep-13	40,000,000	2.125%	0.510%	4.476%	(399,821)
				Total Cashflow:		(2,931,662)

This is in addition to the £670,000 point of sale hard mark up that the bank took on the sale of the £40mio IRHP in 2010.

FURTHERMORE, the contingent liability and therefore concealed FCA regulated hard credit line obtained in the name of AIL so as to sell them this £40mio toxic product, was £4,627,117.00.

FURTHERMORE, at the time of buying this £40mio IRHP, the bank knew that Angelic only had £9mio of unhedged borrowing, meaning that the notional value of an IRHP required to satisfy the 75% hedging condition was only £6.75mio.

Buying the new IRHP was truly 'out of the frying pan and into the fire'.

And for the record, the solution to problems caused for a customer by the sale of a toxic and high risk derivative, can NEVER be the sale of another toxic and high risk derivative.

In Summary, in 2007 the bank could lawfully only have sold one of these appropriate products to this customer:

a) A 3.5 Year £20mio Fixed rate facility to January 31st 2011
or
b) 3.5 Year £15mio Caps to January 31st 2011

The worst total cost scenario had they done either of the above would have been the £140,000 cost of the Caps.

A Collar was always inappropriate for this and most customers, but even then, the very worst product the bank could have 'inappropriately' sold them was:

c) 3.5 Year £15mio Collar to January 31st 2011

WHEREAS, the bank sold them a 5 year Collar with a £20mio notional.

It is worth summarising the total cashflow impact as a result of the sale of that 2007 Collar

Lloyds Bank Markup profit on 2007 Collar	83,686.00
Quarterly costs paid on 2007 Collar	1,511,995.00
Break costs of 2007 Collar ('Folded'/'wrapped' in to costs of 2010 IRHP)	1,770,517.00
Lloyds Bank Markup profit on £40mio 2010 IRHP	670,000.00
Total quarterly cost to AIL of £40mio IRHP	2,931,662.00
Less the Break cost built in to 2010 IRHP	-1,770,517.00
TOTAL CASHFLOW COST OF 2007 & 2010 IRHP's	**5,197,343.00**

But for the sale of the 2007 Collar, both Angelic Interiors and Angel Group would have survived and thrived.

It was Ground Zero in what would become a sequence of truly astonishing events, multiple counts of fraud, conspiracy to defraud and money laundering by Lloyds Banking Group and their various partners.

But make no mistake, they are one of thousands upon thousands of victims of what was an industry wide fraud, but conveniently and wrongly packaged by the FCA as ‘mis-selling’ so as to give the banks a lability shield.

NYDFS (New York Department of Financial Services) Press Release May 20th 2015.

Additional Efforts to Cheat Barclays Clients

On numerous occasions, from at least 2008 to 2014, Barclays employees on the FX Sales team engaged in misleading sales practices with clients. Sales employees applied "hard mark-ups" to the prices that traders gave them without their clients' knowledge. A hard mark-up represents the difference between the price the trader gives a salesperson and the price the salesperson shows to the client.

As one FX Sales employee wrote in a chat to an employee at another bank on December 30, 2009, ***"hard mark up is key . . . but i was taught early . . . u dont have clients . . . u dont make money . . . so dont be stupid."***

The practice of certain FX Sales Employees …….. would allow Sales employees to add mark-up without the client's knowledge

Continued on next slide

Mark-ups represented a key revenue source for Barclays and generating mark-ups was a high priority for Sales managers. As the future Co-Head of UK FX Hedge Fund Sales (who was then a Vice President in the New York Branch) wrote in a November 5, 2010 chat:

"markup is making sure you make the right decision on price . . . which is ***whats the worst price i can put on this where the customers decision to trade with me or give me future business doesn't change*** *. . .* ***if you aint cheating, you aint trying."***

Barclays were fined $2.5bio for these and other FX wrongdoing, and forced to plead guilty to criminal charges in respect to them.

This is precisely what sales persons at Lloyds were encouraged to do, and it was written into a formal policy, and in respect to ALL products including IRHP's.

Fraud.

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(c) Paul's concerns about pricing and margins did not form part of his grievance appeal. They were investigated as part of Paul's whistleblowing complaint by Group Investigations. I was not therefore reviewing pricing and margin issues as part of the appeal. As an aside, I note that Paul would not have been aware that our Pricing Framework is shared with regulators and subject to monthly testing. Paul is entitled to his opinion however he would not have visibility of the cost allocation methodology within our pricing framework nor the level of visibility it has with our regulator.

As many of you will know the FCA was forced to announce the IRHP Review in June 2012.

Angelic Interiors were informed they were included within the IRHP review, and why wouldn't they be. They were and always had been classified by Lloyds as Retail and non-sophisticated even in 2012.

However, in January 2013, there was a new sophistication criteria introduced and retrospectively applied. It declared that any customer with IRHP's with a total notional value of more than £10mio was now classified as sophisticated and removed from the IRHP review. Angelic received a letter in June 2013 informing them that they had now been excluded from the review and entirely as a result of this new sophistication criteria.

The total value of your live trade was greater than £10 million on the date of the trade.

We therefore believe you are not eligible to have your file reviewed in respect of the trades detailed above. Please refer to the enclosed 'Sophistication Criteria Guidance' for further details of the FCA criteria that we have applied.

In applying the FCA's criteria, the Bank has relied upon information held by the Group and publicly available information (including information provided by third parties, such as credit agencies). Lloyds Banking Group accepts no responsibility for the accuracy of the publicly available information.

Angelic were one of 5,309 non-sophisticated or retail customers excluded from the IRHP Review as a result of this new sophistication criteria.

Degree of misselling and potential damage.

Of the 18,169 cases that were classified as ‘non-sophisticated’ and reviewed, 16,613 resulted in ‘non-compliant’ assessments and redress offered.

That’s 91.74% of all cases reviewed.

We know that 13,936 accepted the initial offers of redress plus 8% per year simple interest.

This amounted to £2.197bio total redress paid out.

It is my estimation that this saved the banks more than £15bio in liabilities, denying those victims rightful compensation of that amount.

Let’s look at the reasons given for the introduction of this criteria and who introduced it……

According to the Treasury and the FCA, the reason given for introducing this retrospective criteria was that certain customers should not be eligible or classified as non-sophisticated where they were:

1. A subsidiary of a large group whereby the large group itself was designated as 'sophisticated' as per the criteria that existed prior to January 2013

Or

2. SPV's that formed part of a larger group, where the large group itself was designated as 'sophisticated' as per the criteria that existed prior to January 2013

The study concluded that:
"Overall, the new sophistication test will provide a greater level of assurance that the review will be focused on those small businesses that were unlikely to have had the specific expertise and skills needed to understand the risks associated with these products."

It was claimed that it was the FCA that introduced this as a result of their Pilot Study. However, this was a false representation……

The introduction of this criteria for the reasons given made no sense.

I won’t go into chapter and verse here, but I published my findings and evidence earlier this year. It can be found here: http://jupiter87.com/2021/02/sajid-javid-fsa-fca-hmt-and-the-betrayal-of-5000-uk-businesses-what-did-bailey-and-glen-know/

My initial investigation uncovered some disturbing evidence, that corroborated my concerns. I wrote to someone that was heavily involved with the FCA and the IRHP review:

"I have a quick question for you. The "notional value of trades being above £10mio" criteria that was used in the IRHP review to exclude customers from it. Where did this come from and how did it become a criteria for this review?

As I understand it, the banks 'colluded', for want of a better word, after undertaking some initial reviews of IRHP sales, and went to the FCA as a group, to have the limit introduced."

They replied:

"It was put in by Sajid Javid (on behalf of HMT) to reduce the impact / cost of the IRHP Review scheme.

I personally tried to remove this with him and speaking to him, but he actually understood the impact of this and wasn't going to budge. xxxxxxxxxxxx MP and xxxxxxxxx MP tried too.

The FCA have told me that HMT intervened. When I hosted the below meeting at my office in 2013, the HMT also came with the FCA even though I didn't invite them!"

Calls for inquiry over Sajid Javid's watered-down compensation scheme

James Hurley, Enterprise Editor

Wednesday August 07 2019, 12.01am, The Times

Boris Johnson

Conservative Party

Economy | UK politics

Sajid Javid allegedly narrowed the criteria for a business compensation scheme while economic secretary to the Treasury
AARON CHOWN/PA

Labour has asked Boris Johnson to investigate claims that Sajid Javid watered down a compensation scheme in order to save banks billions of pounds at the expense of thousands of small and medium-sized companies.

John McDonnell, the shadow chancellor, said that he would ask the prime minister to clarify the Treasury's role in altering the criteria for a redress process for widespread mis-selling of interest rate hedging products.

The Treasury denied a report that it was Mr Javid who had "narrowed the eligibility criteria" for the redress scheme when he was economic secretary to the Treasury from September 2012 to October 2013. Wrongly sold as "protection" against the risk of rising interest rates, so-called interest rate "swaps" left small companies facing disastrous cost increases when rates fell during the financial crisis.

In 2013 the City regulator altered its plans for a compensation scheme,

I reported my allegations and submitted all of the evidence that I had to John Swift QC and his team that are undertaking the independent investigation of the FCA's IRHP Review at the instruction of HM Treasury.

I met with Mr Swift's team on February 12th 2020 and walked them through all of the evidence that I had, and answered their questions.

There can be no question that they did not understand the significance and the weight of the evidence I had implicating Mr Javid, and exposing the false representations made since January 2013 by all involved.

Mr Javid resigned as chancellor the next day.

Make of that what you will.

Returning to the IRHP Review, there are two things I would like to make clear.
Firstly, the nonsense in respect to 'sophistication'. It's meaningless. The fact is that those Barclays sales persons were not isolated. Their approach was the industry norm.

1. Banks and bank sales persons do evaluate a customer's sophistication when conducting business with them.

2. However, the purpose of this sophistication evaluation has little or nothing to do with the duty of care they must afford, or type of product that they could sell to, the customer.

3. Indeed, the formal criteria for sophistication that has been relied upon by the banks (and their lawyers), FCA and FOS to deny customers the compensation that they know the customer is entitled to, is not, and rarely ever was, the criteria being used by the bank or sales persons when evaluating the customer.

4. Instead the banks and their sales persons were evaluating the 'sophistication' of the customer by other criteria. This criteria was:
a) How much does the customer know about this product?
and
b) How much does the customer know about the true market price of this product?

5. The intent was to make financial gain, and to determine how much 'Hard' mark up they could take from the customer from any given transaction.

6. This was achieved by way of saying anything, be it true, false or misleading, that was required so as to convince the customer to buy the product and pay the excessive and unfair price.

7. This approach was adopted whether the customer was the smallest SME, or the largest corporate, and the formal 'sophistication' criteria never entered their thinking or the equation.

I want to close by showing you three pages from the official Lloyds Banking Group document provided to skilled persons hired to conduct the IRHP Reviews, initially codenamed by Lloyds as ‘Project Gresham’

These three pages are indicative of the whole document.

KEY KPMG REVIEWER ROLE & RESPONSIBILITIES

Stage 1: Data Request & Validation

- Confirm allocated customers and locate core data folders
- Ensure all required data has been requested and uploaded to core LBG systems

Stage 2: File Collation

- Locate and print relevant / mandatory documentation and save to file
- Copy hard copy documents as appropriate (scan to file) and return originals
- Search for / request any outstanding / additional documentation via relevant LBG teams

Stage 3: File Analysis

- Review customer file and assess all documents
- Identify any anomalies in loan / derivative arrangements
- Apply LBG agreed policies / risk weightings and apply scoring
- Complete, save and print review template
- Update review database / tracker

SALES PROCESS

Client meeting:

- Company objectives / Time horizons
- Is debt in place or looking to borrow?
- Presentation (formal or informal) of derivative options incl. Pros & Cons
- Confirmation of whether derivative is a condition and if so what %
- Product Profiles issued, outlining product and features / benefits (incl. break costs)

Follow up activity:

- Follow up activity as agreed at meeting, issue of Product Profile if not issued at meeting
- Customer classification / confirmation of advice
- RWL letter – direct or email (should have been completed within 48 hrs of meeting)
- Agreement of deal and confirmation of requirements
- Completion of trade.

KEY DOCUMENTS

1. Fact Find / MiFID sheet / Suitability Understanding

- Client classification
- Risk Appetite / Understanding / Suitability
- Nature of Business
- Documentation provided / returned by client
- Additional notes / RM discussions

2. Hedging / IRM Proposal / Presentation / RWL

- Customer background and objectives
- Proposed options / deal terms
- Fees

3. Product Profile

- Description of derivative
- Terms / Features & Benefits
- Graphical example of product operation
- Break costs

4. Trade Confirmation

- Details of derivative product implemented
- Term
- Terms & Conditions

5. Loan Agreement

6. Credit Sanctioning

7. FSA risk warning Notice

8. Treasury Master Agreement

NB.

1 – 5 mandatory core documents

6 – 8 useful additional documents

There is no mention in these pages outlining the process and scope of the IRHP Review process, of the Initial or Variation Margin requirements, or the concealed credit lines or other security that was taken out by the banks to satisfy them.

Yet they were fundamental to the fraud.

The banks knew this and so did the FSA/FCA, but these were removed from the scope of the IRHP Review.

Once again, hwoever, we have to ask was the hierarchy of oversight complicit in the fraud?