Chat Rooms and 21st Century Insider Dealing

Just when the bankers and financiers of the world thought it was safe to begin trading again in the shark infested waters of high finance after showing their contrition with the payment of multi-billion dollar fines to various regulators worldwide following the debacle of the Libor Scandal, a further scandal is looming which has the potential to dwarf Libor and lead to further collateral investigations into other asset classes across the board - welcome to the year of the Forex!

It's not unfortunately an investigation into the Australian brewing industry that has done so much to damage the taste buds of numerous people across the world but instead it’s the abbreviation for the Foreign Exchange Rate Mechanism that is currently under investigation by a host of regulators around the around (including our own Financial Conduct Authority) as suspicion grows that the rate used to govern transactions, estimated to total approximately $5.3 trillion dollars per day, has been in effect "rigged" by a small group of traders, working in a coterie of high class banks, whom have decided to manipulate prices in their own favour to facilitate hiking the costs to their clients when they undertake simple transactions on their behalf. Thus increasing their profits and their bonuses. Sound familiar?

This simple and straightforward "rigging" is believed to have been undertaken in part due to an absence of regulation in this area of trading activity (or a Nelsonian approach by their immediate supervisors some may allege) coupled with a close working friendship/knowledge between the traders themselves due to the small numbers involved in the field, all facilitated by the modern day social forum - chat rooms.

Who needs the old boy network when you have the internet?

The problem is, they leave an identifiable trace and the rich pickings that may well be found in those rooms will probably form the basis of the charges eventually levelled against the alleged perpetrators and their corporate supervisors.

Whilst the FCA's (and other regulators') investigations are at a preliminary stage, it’s clear that the banks whom are heavily involved in the Forex trade are suitably concerned to start suspending staff and are starting their own internal investigations into whether or not there has been illegal activity by their employees in order to deal with this matter as quickly and as cost effectively as possible.

After only just settling their liabilities with the newly empowered economic regulators of the western world, they are facing further draconian fines that will affect not only their profitability but also their liquidity, their profit margins and their professional reputations. The success of Libor has emboldened the regulators to take on the financial world with its "light touch" approach to regulation and corporate governance and it may well be that the Forex investigation is just one of many similar investigations launched into other asset classes with a somewhat opaque way of operating - gold, silver and oil are believed to be under active consideration by regulators based in Europe.

In the current politico-economic climate with an empowered and successful FCA determined to address corporate misfeasance which has the political backing of the government, the glory days of "light touch" regulation seem to be fading rapidly. The banks and financial institutions that are or will be caught up in the forthcoming investigations will have to address their compliance culture, their governance and the ways they remunerate their star traders.

For the government and their regulators, the real challenge will be to ensure increased competition being introduced into the market place to avoid a cartel like atmosphere operating which can not only act illegally but also distort and damage the image of the City and for it to be counterbalanced by an effective form of regulation that will not stifle economic innovation.

It may be yet another challenging year for the banks, but the regulators face an equally challenging one as they attempt to reform and re-invigorate a fraying regulatory regime.

Some interesting times ahead.