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FTSE 100	FTSE All Share	Dow Indl	S&P 500	Nikkei 225	UK 10 year gilt	Oil ($ per barrel)	Gold ($ Troy oz)
-64.62	-34.44	-11.17	+0.57	-393.72		-0.55	+19.75
6620.90	3569.10	16340.08	1868.20	14830.39	111.2100	107.85	1366.00

Rate £	1.1942	Rate £	1.6605
Change	-0.0049	Change	-0.0023

£ € £ $

SOURCE: INTERACTIVE DATA

QC to lead forex inquiry into Bank staff

Grabiner to investigate officials' role in price fixing

Independent review of evidence 'now essential'

Jill Treanor

The Bank of England has called in one of the most respected figures in the legal world, Anthony Grabiner QC, to investigate allegations that some of its staff may have been involved in manipulating the £3trillion-a-day foreign exchange markets for almost 10 years.

Lord Grabiner was hired by News Corp to chair its standards committee in the wake of the phone-hacking scandal. He is thought to demand £3,000 an hour for his time though he is likely to be charging the Bank a lower rate.

Grabiner has been appointed by the Bank's oversight committee, which was created in 2012 to police the central bank and is composed entirely of non-executive directors of the Bank. The committee last week began a formal investigation into whether any bank staff knew about attempts to rig the foreign exchange markets. Allegations about potential fixing of foreign exchange markets emerged last year. The Bank then began an initial inquiry into whether its officers were aware of or had condoned the potential manipulation of a "fix" which takes place daily at 4pm.

The Bank's governor, Mark Carney, told MPs this week that the scandal had the potential to be bigger than the rigging of Libor, which has resulted in big-name banks being fined billions of pounds on both sides of the Atlantic.

The focus is on the benchmark known as WM and which is used to set daily prices, through a "fix", on large number of currencies. The allegations are that rival traders shared information about their clients' positions which may have influenced the price of the fix and that the Bank of England may have known about this.

Grabiner will look at information dating back to 2005 when foreign exchange dealers from the top firms around the City first began to meet officials from the Bank three or four times a year.

Minutes of these meetings released by the Bank last week showed that they met in restaurants around the City and, it appears, began to raise the topic of possible manipulation of the foreign exchange markets in a meeting in July 2006.

Paul Fisher, the Bank's markets director, who appeared with Carney when he faced MPs this week, said that his reading of those minutes "did not convey to me that markets were being rigged."

The Bank initiated a review of its role in potential rigging of the markets after newswire service, Bloomberg reported that the traders had told the central bank in 2012 they were exchanging information about their clients.

The outcome of the internal review was announced a week ago when the Bank of England revealed it had suspended a member of staff. That move came after the law firm Travers Smith had analysed more than 15,000 emails, 21,000 Bloomberg and Reuters chatroom records and more than 40 hours of telephone call recordings.

At the time the Bank said no evidence of collusion with foreign exchange traders at banks around the City had been found but the oversight committee decided to launch a formal inquiry after the employee was suspended.

Grabiner, who acted for Liverpool Football Club in its victory over previous owners Tom Hicks and George Gillett, is now going to lead the inquiry with the assistance of Travers Smith. Sir David Lees, who chairs the court of the Bank - akin to a board of directors - said the oversight committee which he also chairs had first been informed of the allegations in November.

> 'This is as serious as Libor, if not more so - this goes to the heart of the integrity of financial markets'
> Mark Carney

"The committee believes that it is essential that matters raised by the Bank's review should be independently examined and that the Bank's executive should act on any lessons learned," Lees said.

It is not clear what timescale Grabiner has been given and the Bank warned that while it would publish the report it may not do so until the Financial Conduct Authority has completed its investigations into the market.

Twenty people have been suspended or fired from big City firms as the investigation - also being conducted by US regulators - continues. The FCA is continuing to investigate the rigging of Libor after fining five firms - starting with Barclays in June 2012 - and is still thought to be looking at the activities of three others.

Carney said of allegations about the foreign exchange markets: "This is as serious as Libor, if not more so because this goes to the heart of integrity of markets."

The trader

Odds stacked in favour of the smart operator

Simon Goodley

Casper Marney, a foreign exchange trader, has been playing the markets using his own statistical methods since 1999 Photograph: Frantzesco Kangaris for the Guardian

"Banks don't have to beat the market to make money. They just have to beat their customers."

So says Caspar Marney, a foreign exchange trader of about 20 years' experience, including spells at major City banks such as UBS and HSBC.

The former paratrooper has been playing those markets using his own statistical methods on behalf of private clients since 1999, and gives lectures to others keen to learn how this impenetrable scene really works - which seems to be in a very different way from how most of us imagined.

On Tuesday, Bank of England governor Mark Carney admitted that allegations of exploitation in foreign exchange markets could prove to be a bigger scandal than the manipulation of Libor, following last year's revelations that the £3tn-a-day global trade in currencies might have been rigged.

"A bank's spot [currency trading] desk doesn't generally beat the market," Marney added. "They extract profit from their orders. Orders are information. Every bit of information stacks the deck. And the closer you get to 4pm, the less the risk [of the price moving against you]."

That time is crucial in currency trading and it is where investigators are said to be focusing. The market uses a benchmark price at 4pm - called the "fix" or the "fixing" - which is the price many clients request, chiefly because it is considered to be transparent.

That seems clear enough, but how can a few traders manipulate "the fix" when the currency markets are so huge? The answer, according to Marney, is that the trade is rigged, but not in the way you might think.

Traders cannot really command prices to go higher or lower - as was ostensibly the case in the Libor rigging scandal when a few bankers manipulated benchmark interest rates. But in foreign exchange, the market is heavily biased towards the professionals sitting on trading desks, who gain an edge by automatically receiving information far superior to that used by outsiders.

Marney's example involves a trader who gets a call from a major corporate client wanting to exchange US dollars for £600m in sterling. "That's big, but not absurdly huge," he said. "You perhaps get one of those a month but when you do, all other things being equal, you know the price is going up as you have an order for a market moving amount."

Knowing that there is going to be a large order for dollars against the pound, the trader could buy pounds for the bank's own trading account (unlike in equity markets, this is not against the rules in foreign exchange). He might also stage the purchases of the £600m so that the bank is likely to pay less for the pounds than the price at 4pm - which is what the client ends up being charged for.

While Marney said he has no evidence of collusion between foreign exchange traders at different banks; he adds that many of them know each other. He speculates that if a few of them did speak and discovered they all had large orders likely to push the market in one direction, it might prove too tempting an opportunity.

Even so, Marney has some sympathy with his colleagues - who have not been shown to have broken any laws. "A bank has no choice but to trade before 4pm - otherwise they'd lose money," he said.

Inside information

Step by step: how to make $1.8m in 15 minutes

3:45pm An international client calls the foreign exchange desk of a bank to convert some of its US dollars into £600m of sterling. It asks if the trade can be settled at the market benchmark price - established at 4pm each day and dubbed by the markets as "the fix" or "the fixing".

3.48pm The trader immediately buys £50m for the bank's own trading account at the market price of 1.6000 pounds to the dollar. He does this as he knows he has a very large amount of pounds to buy over the next 12 minutes meaning there is a good chance that the price will rise.

3.50pm The trader has now made sure that his bank has been looked after. His £50m trade has caused the price of pounds to tick up to 1.6010 and the trader buys £100m at that price. He repeats this trade every two minutes, which drives the price higher each time. He stops when he has bought a total of £600m for his client by 4pm at an average price of 1.6035.

4pm The "fixing" states the price of the pound to the dollar is now 1.6060. The trader has filled his client's order and can also sell the £50m he bought for the bank. As the client has asked to pay the fixing price, he receives his £600m at a cost of $963.6m (£600m x 1.6060). But the bank has paid $962.1m (£600m x the average price of 1.6035), meaning it has made $1.5m out of the client's transaction. Add in the $300,000 won on the £50m side bet, and the trader has just made $1.8m for his bank in 15 minutes. Give the boy a bonus. **Simon Goodley**

Rising price