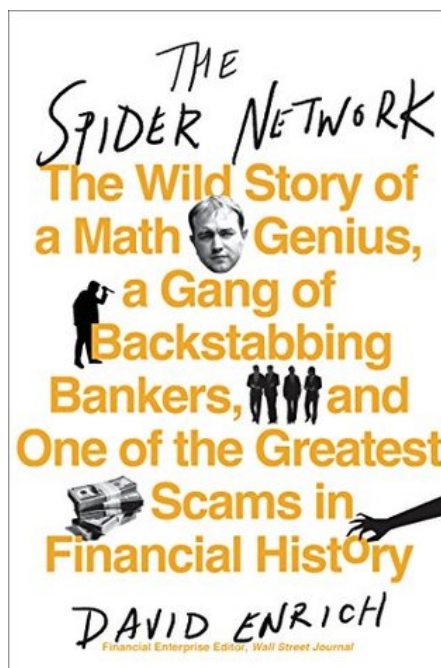




The Spider Network: The Wild Story of a Math Genius, a Gang of Backstabbing Bankers, and One of the Greatest Scams in Financial History

David Enrich

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The *Wall Street Journal*'s award-winning business reporter unveils the bizarre and sinister story of how a math genius named Tom Hayes, a handful of outrageous confederates, and a deeply corrupt banking system ignited one of the greatest financial scandals in history.

In 2006, an oddball group of bankers, traders and brokers from some of the world's largest financial institutions made a startling realization: Libor—the London interbank offered rate, which determines the interest rates on trillions in loans worldwide—was set daily by a small group of easily manipulated functionaries, and that they could reap huge profits by nudging it to suit their trading portfolios. Tom Hayes, a brilliant but troubled mathematician, became the lynchpin of a wild alliance that among others included a French trader nicknamed “Gollum”; the broker “Abbo,” who liked to publicly strip naked when drinking; a Kazakh chicken farmer turned something short of financial whiz kid; a broker known as “Village” (short for “Village Idiot”) and fascinated with human-animal sex; an executive called “Clumpy” because of his patchwork hair loss; and a broker uncreatively nicknamed “Big Nose.” Eventually known as the “Spider Network,” Hayes's circle generated untold riches —until it all unraveled in spectacularly vicious, backstabbing fashion.

The Spider Network is not only a rollicking account of the scam, but a provocative examination of a financial system that was crooked throughout, designed to promote envelope-pushing behavior while shielding higher-ups from the consequences of their subordinates' rapacious actions.

The Spider Network: The Wild Story of a Math Genius, a Gang of Backstabbing Bankers, and One of the Greatest Scams in Financial History Details

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From Reader Review The Spider Network: The Wild Story of a Math Genius, a Gang of Backstabbing Bankers, and One of the Greatest Scams in Financial History for online ebook

Nick says

This story is amazing. Not only were trillions of dollars worth of loans based on a Libor, but enormous amounts of derivatives contracts as well. Yet, as it turns out, Libor was easily manipulated by the traders and brokers involved in trading these derivatives. While Enrich outlines how the scandal unfolded in amazingly fascinating detail, what I really loved were the characters. You really get a feel for everyone from the regulators to the traders. I particularly enjoyed the working class partying brokers who kissed up to not only their math nerd client, but to their math nerd client's family as well. It is a real inside look into a particularly sleazy side of Wall Street culture.

Anirvan Ghosh says

This is a great work of journalism that reads like a thriller. I enjoyed it all the more because I had previously read David Enrich's reporting on Tom Hayes and his trial in the Wall Street Journal two years ago.

Here's the central question: if a trader rigs Libor — the rate that determines your mortgage payments and credit card bills — would you blame him or his bosses who expect that of him, or the system where everyone who can is rigging it to make millions?

What Tom Hayes did was wrong, but he was made a scapegoat while the people who rewarded him for rigging Libor rates went scot-free. Everyone who colluded with him turned around when investigators closed in and threw Hayes under the bus. The saddest part is that Hayes, a mathematical prodigy and one of the best financial traders, never realized that people he thought of as friends would not hesitate to turn on him.

That doesn't mean what he did was right (a lot more of that in the book), but it does force us to question the measures taken by governments after the 2008 financial crisis. Banks paid a lot in fines, but almost all of its top brass not just escaped jail but made millions off the crisis. Something similar happened with the Libor rigging scam, where Hayes was portrayed as the ring leader of a vast criminal conspiracy when in reality he was one among many mid-level traders and brokers who were actively working to rig Libor.

This book is definitely one of the best works of investigative business journalism, in the same league as "Barbarians at the Gate" or "Den of Thieves". And thanks to Enrich's excellent writing, you don't even need to know a word of financial jargon to understand it.

Sam Walker says

The Spider Network is a bonafide thriller. It's the inside story of one of the most audacious bank heists of all time. But it's also a classic of muckraking journalism that exposes how insiders can manipulate the complexities of the global financial system to enrich themselves. On another level, it's a fascinating character

study of a brilliant, complex and unpredictable man haunted by his own personal demons who, with a few keystrokes, could affect the lives of billions of people. It's rare to find a book that you feel like you should read, but that you also can't put down. David Enrich is the rarest kind of writer, someone who is steeped in the arcane details of a subject few people understand, but also has the ability to step back and tell a story.

Mehrsa says

This is a story about how prosecutors bankers can go wrong. When the entire system is involved in corruption as was obvious with LIBOR and people find out about it and get mad, someone has to go down. Who do you pick? Usually someone vulnerable, sometimes that person was a particularly bad offender. This book pairs nicely with Black Edge where someone went to jail and the rest of the industry stayed put. There's a problem here with the system and people want bankers to pay, but do these criminal prosecutions work to deter wrongdoing? Probably not.

Katy says

I received my copy free through Goodreads Giveaways

Clay says

The overall plot wasn't all that "Wild", but the gang was rather backstabby. Not sure if I would have classified it as "One of the Greatest Scams in Financial History" either. It was another case of letting investment bankers be in control of a market metric that they could manipulate to some degree and then make bets on how things would be in the future (where they would try to manipulate the metric in their favor).

In this case the metric was Libor (London Inter-bank Offered Rate) or the average interest rate that one bank would charge another that was borrowing money from the lending bank in London. If you've read your credit card terms or adjustable mortgage terms, you've seen Libor referenced as a basis for setting those adjustable rates. The original metric proved so useful, a whole host of other countries with their banks and currencies created similar metrics. From this, derivative products could be bought by investors to hedge other investments in their portfolio. Brokers and traders that sold these derivatives often took up opposite positions to balance or hedge their risk. Unfortunately, the "foxes were in charge of the hen house" in many cases and brokers could influence trends in the Libor-like metrics.

The author does a good and simple explanation about Libor, its history and uses, and the concept of derivatives and making "bets" on how much Libor changes within a given period of time. These latter "financial products" were the crux and motivation for the whole scam. All in all, one more reason for stricter banking regulation and prosecution, IMO.

Laura Spira says

Full disclosure: I didn't finish reading this book. As a business school academic, I've read a lot of the

literature that has been spawned by financial scandals, in the hope of finding books to engage my students. Some authors - Michael Lewis, for example - manage to spin a really gripping story out of often unpromising material. The journalist David Enrich (an oddly resonant surname) doesn't pull it off.

The over-exuberant title gave me pause before I'd even started reading: when I requested the ARC from Netgalley I was not aware of the part after the colon. The lengthy dramatis personae at the start was also a bit worrying: the idea that I would need to keep referring back to identify members of the cast suggested that the author might not have done a very good job of characterisation.

But the most off-putting aspect for me was that the author never seemed to make up his mind about his audience. How much knowledge of the context could he assume? How much explanation did he need to provide? He never seemed to decide on this. The complexity of LIBOR and the banking culture and processes surrounding it demands some level of explanation, more than a journalist probably needs to provide in a short news article but the balance here tended to the didactic, which I found irritating. And I'm not at all keen on footnotes which in this case were particularly distracting.

If you want to read about the machinations of bankers, I recommend the work of Joris Luyendijk:
<https://www.theguardian.com/profile/j...>

The Serendipity Aegis ~ ?Misericordia? ?????? ✨♥️ says

A very cool research on a very space cadet issue that our modern world, no matter how sophisticated we think it be, was prone to at up until a very recent point. (And probably still is, I don't see this process becoming separate from judgement!)

Q: Spread out across time zones and continents, a group of bankers, brokers, and traders had tried to skew interest rates that served not only as the foundation of trillions of dollars of loans, but also as an essential vertebra of the financial system itself. It all boiled down to something called Libor: an acronym for the London interbank offered rate, it's often known as the world's most important number. Financial instruments all over the globe—a volume so awesome, well into the tens of trillions of dollars, that it is hard to accurately quantify—hinge on tiny movements in Libor. In the United States, the interest rates on most variable-rate mortgages are based on Libor. So are many auto loans, student loans, credit card loans, and on and on—almost anything that doesn't have a fixed interest rate. The amounts that big companies pay on multibillion-dollar loans are often determined by Libor. Trillions of dollars of exotic-sounding instruments called derivatives are linked to the ubiquitous rate, and they have the ability to touch virtually everyone: Pension funds, university endowments, cities and towns, small businesses and giant companies all use them to speculate on or protect themselves against swings in interest rates. If you bought this book with a credit card, you quite possibly brought Libor into it. So, too, if you drove to the bookstore in a car not yet paid off—or if you're carrying a mortgage or student loans, or if your town borrowed money to pave its roads, or if you work for a company that issues debt. So if something was wrong with Libor, the pool of potential victims would be vast. As it turned out, something wasn't wrong with Libor, everything was. (c)

Q: ... this was a misadventure like none other. (?)

Q: Of course, traders being traders, Davies teased Hayes about the fact that his mother still cut his hair and that he was still sleeping under a duvet cover decorated with superheroes. He suggested that his mentee read *The Curious Incident of the Dog in the Night-Time*, a novel whose autistic main character reminded Davies of Hayes. (Behind his back, Davies nicknamed him "Kid Asperger." Other colleagues christened him "Rain Man.") (c)

Q:

Derivatives really exploded in popularity in the 1970s, in large part due to unprecedented volatility that hit financial markets. Oil prices ricocheted up and down. Governments delinked their currencies from the gold standard, causing exchange rates to swing wildly. Rapid inflation spurred central banks to jack up interest rates. Companies and individuals needed ways to protect their fortunes from these new risks—and banks and brokerages were there to help, peddling a growing array of derivatives. A company that offered hot-air-balloon rides might purchase derivatives whose value rose the more rainy days there were in a season, thereby shielding the company from the adverse effects of bad weather. The banks or other companies that sold those instruments would charge a fee and then would try to balance out their positions by offering the opposite positions—say, a derivative whose value climbed based on the number of sunny days—to other customers, such as umbrella manufacturers. Boiled down to their essence, derivatives were designed to help people or institutions protect themselves from future circumstances. And no matter the sunshine or the clouds, one party in the transaction always came out ahead—that was the bank that, for a fee, engineered the derivative.

Derivatives were uniquely suited for speculation, because traders could dabble without actually having to own a product. Someone who bought or sold pork belly futures, for example, was unlikely to actually own, now or ever, any actual pig parts. But future swings in the price of pork bellies might be a good gauge of expectations about the weather or a harvest or a disease's severity or just basic macroeconomic trends. And so investors might buy or sell pork belly futures to get a piece of that action. (c)

Q:

And in 1998, the chaotic collapse of the giant, derivatives-investing hedge fund Long-Term Capital Management, run by mathematicians and Nobel Prize-winning economists, further underscored the instruments' risks (c)

Q:

In 1981, IBM turned to Salomon Brothers for help. The Wall Street firm approached the World Bank—one of the leading issuers of debt anywhere, and an entity with a tolerance for bonds denominated in a variety of currencies—and convinced it to sell a slug of bonds that were identical to the IBM debt except for one crucial difference: They were in dollars. Then IBM and the World Bank simply swapped responsibility for making interest payments and eventually repaying the principal on their respective bonds. It was the birth of a new financial derivative: the swap. (c)

Q:

From the start, though, Libor was prone to problems. Chief among those was the potential for banks to manipulate it for their own benefit. Doing that was alarmingly easy. In the 1990s, junior bank employees would simply pick up the phone and call in their submissions to financial data company Thomson Reuters every morning around eleven o'clock. A low-level Reuters employee punched all the banks' data into a computer and calculated the averages. Nobody of any seniority monitored the process. Virtually all it took for a bank to skew Libor was for it to skew its own submission. As long as the bank's figures weren't the very highest or the very lowest of all that day's submissions, a change in its data would ripple through the average.

In 1991, a young Morgan Stanley trader in London named Douglas Keenan was placing bets on interest-rate futures. Their value was calculated based on where Libor moved. After the market moved against him one day, Keenan came to suspect that someone—he wasn't sure who—was somehow manipulating the instruments to suit his or her own trading positions. He shared his suspicions with his colleagues. They laughed at his naïveté. It was common knowledge that banks tweaked Libor to benefit their own trading positions. It seemed that everyone other than Keenan already knew it was happening.

Banks had multiple incentives to push or pull Libor. One was that, because each bank's submission was made public, investors scoured the data for indicators about the bank's financial health. A bank that reported a spike in its borrowing costs might be in trouble—after all, why else would rival institutions suddenly be charging it more to borrow row money? That gave banks a reason to keep their submissions low, especially during periods of market unease. Another enticement for banks to tinker with Libor was to increase the value of the vast portfolios of derivatives that the banks' traders were sitting on at any given time. Those positions could incentivize a bank to move Libor higher or lower—or both, in the frequent event that different traders at the same bank had amassed different positions. It all depended on what their traders had recently bought or

sold. (c)

Q:

When the CFTC invited the public to comment on the Merc's proposal, Marcy Engel jumped at the opportunity. Engel was a lawyer for Salomon Brothers, then firmly established as one of Wall Street's most aggressive bond-trading houses (it soon would become part of Citigroup). She worried that linking Libor to the Eurodollar futures would provide banks, which had huge businesses trading those contracts, "an opportunity for manipulation . . . to benefit its own positions." Richard Robb, at the time a thirty-six-year-old trader at a small Japanese financial company, DKB Financial Products Inc., also wrote to the commission to caution that Libor was vulnerable to manipulation and therefore shouldn't be embedded in the contracts. "If two banks worked together, they could raise the average" substantially, he warned.

During Bill Clinton's presidency, the CFTC had earned a reputation as a hands-off, probusiness regulator. In December 1996, staffers wrote a memo to the agency's leaders saying that Libor "does not appear to be readily susceptible to manipulation." The commission approved the Merc's application. The next month, Libor officially became an integral component of the fast-growing derivatives market. (c)

Q:

One way for the BBA to wring more revenue out of Libor was to create new versions of the benchmark. The most prominent versions of Libor were the British pound and the U.S. dollar varieties, but by 2005 Libor came in ten flavors: The pound and dollar were joined by the Australian dollar, the Canadian dollar, the Swiss franc, the Danish krone, the euro, the Japanese yen, the New Zealand dollar, and the Swedish krona. And within each of those, there were fifteen subcategories, broken down by time periods. For example, a three-month U.S. dollar Libor was supposed to measure how much it would cost a bank to borrow dollars in London for a three-month period. Other time periods included one month, six months, one year, and so on.

(c)

Q:

Smith had basically no clue what he was doing. He didn't know how to go about figuring out the bank's borrowing costs, which were supposed to be the entire basis of the bank's Libor data. He didn't even know whom to talk to internally. . . . So Smith, lacking much other relevant information, would make up his submission based in part on what the brokers were predicting. . . .

Brokers weren't Smith's only sources. One of the investment bank's priorities at the time was to improve collaboration between different parts of the company. The idea was to transform UBS into a more efficient, collaborative beast, with everyone aware of what his colleagues were up to and pulling in the same direction. The directive was communicated down the chain of command by a senior manager named Holger Seger, a veteran trader who'd worked at UBS and before that Swiss Bank Corp. since 1990. It might have sounded like a vacuous corporate platitude, but UBS employees, at least some of them, took it seriously. Smith was supposed to coordinate with UBS's traders who specialized in buying and selling interest-rate swaps, instruments whose values rose and fell based on movements in Libor. Sometimes the swaps traders would lob a request in his direction about where they wanted him to submit the bank's Libor data that day. Even as a rookie on the desk, he understood what was going on. The traders had big positions whose values hinged in large part on Libor—precisely what Marcy Engel and Richard Ross had warned the CFTC would happen. A lot of money was on the line. So Smith generally followed their requests when it came to what he entered into his spreadsheet. He didn't see any reason not to. (c)

Q:

Around 7 a.m., he sent out an e-mail called a "run-through" to a slew of bank traders. The dispatch contained a simple spreadsheet—basically just a box of numbers—pasted into the body of the message. It listed where every tenor—the technical term for time period*—of yen Libor had stood the past day or two and where Goodman expected it to end up that day. He called that last figure "Suggested Libors." Each morning, he prefaced the data with the same simple note: "GOOD MORNING YEN RUN THRU."

The run-throughs had been an ICAP fixture since the late 1990s. Before long, ICAP's marketing team had sensed their commercial potential. Every so often, an executive traipsed around to a bunch of banks and touted the run-throughs as a valuable service ICAP provided important clients. And so the number of recipients on Goodman's run-through list grew. Libor submitters received it. Derivatives traders received it. Even Bank of England officials received it.

Read and Goodman had realized something interesting about the mundane run-throughs. Employees at some banks—including Citigroup, J.P. Morgan, Royal Bank of Scotland, WestLB, and Lloyds in Great Britain—who were in charge of submitting Libor data sometimes appeared to simply copy ICAP's data rather than go through the onerous process of coming up with their own hypothetical estimates of what it would cost to borrow across different currencies and time periods.

... Once, when Goodman's run-through contained a typo, suggesting six-month Libor at 1.10 instead of 1.01, Read noticed that Citigroup and WestLB copied it, even though it represented a huge leap from the previous day's level. When Goodman corrected it the next day, the banks again followed suit. (c)

Q:

Nobody ever told him it was inappropriate—legally, ethically, or otherwise—to lobby outsiders for help on Libor. What kept him up at night wasn't that what he was doing was wrong. It was that he wasn't doing it well enough.

Hayes was so open about, and preoccupied with, his strategy that he would change the status on his Facebook page to reflect his daily desires for Libor to move up or down, a self-deprecating poke at his nerdy fixation. (c)

Q:

In December 2007, UBS's CEO, Marcel Rohner, gave a presentation to investors in London. Projected on a screen in front of the audience, the presentation cited "structured Libor" as one of the bank's "core strengths" and as a "high growth/high margin business." (c)

Ints says

Šo gr?matu ar viduslaikiem rakstur?gu nosaukumu pa pusv?ku es ieraudz?ju J?n? Roz?. Uz v?ka tika sol?ts, ka š? esot detekt?vam l?dz?ga, saistoši uzrakst?ta un dikti l?dz?ga Michael Lewis; uz to ar? iekritu. Pirku vien nost, jo p?d?jos m?nešus man gr?matu pirkumi diez ko neved?s, viena gr?mata m?nes? ir dikti konservat?vi. S?ku las?t t?l?t pat, braucot m?j?s ar vilcienu.

2006. gad? ba??ieru, treideru un brokeru grupa, kas p?rst?v?ja liel?k?s finanšu instit?cijas, non?ca pie p?rsteidzoša secin?juma. Libors – Londonas starpbanku tirgus likme, kas nosaka procentu likmi aiz??mumiem triljonu v?rt?b? vis? pasaul?, ir atkar?gs no nelielas administratoru grupas. Bija iesp?jams manipul?jot ar tiem ieg?t milz?gu pe??u "sarun?jot" likmes izmai?u par p?ris procentu da???. V?l?k par galveno gr?k?zi atz?s k?du Tom Hayes, ta?u liel?k? da?a labuma guv?ju paliks neskarti. K?d?? t? un kas paties?b? notika, to izst?st?s š? gr?mata.

Atz?šu uzreiz, ka las?t?jam ir kaut nedaudz j?apj?dz k? str?d? pasaules finanšu tirgus, starpbanku transakcijas un k? tiek noteiktas procentu likmes. Autors gan viet?m cenšas šo to izskaidrot, bet liel?koties m?t?jas ar terminiem pa labi un pa kreisi, un las?t?jam n?kas kulties pašam, k? nu m?k. Lai ko tur ar? neteiktu anot?cij?, l?dz Michael Lewis l?menim autoram v?l ir kur augt. Ja st?sts b?tu tikai par vienu no gadsimta liel?kaj?m bl?d?b?m, tad t? droši vien b?tu par div?m trešda??m pl?n?ka, bet ?etrreiz interesant?ka. Ta?u autors ir izv?l?jies apjoma uzp?šanas ce?u. Las?t?jam n?kas saskarties ar p?rdesmit person?žiem, ar dažiem gar?mejoj ar dažiem visas gr?matas garum?. Autoram š?iet, ka las?t?jam var?tu b?t interese las?t par visu vi?u ?imenes dz?v?, ??rbšan?s paradumiem un m?ju renov?cijas projektiem. Lai visam piemestu nelielu asumi?u da?a no notikumiem autors p?rst?sta vair?kk?rt. Iesp?jams, ka ir noteikta las?t?ju grupa, kurus tas interes?, bet man šoreiz vair?k satrauca manipul?cijas ar Libor.

Par t?m jau paties?b? nav nek? daudz st?st?ma, nabaga treideriem daži brokeri iegalvo, ka vi?iem ir sviras, ar kuru pal?dz?bu manipul?t ar Libor likmes noteic?jiem. M?su galvenais varonis Tom Hayes izr?d?s gr?k?zis, jo vi?a soci?l?s prasmes var?tu b?t lab?kas. Cilv?ks dzenoties p?c liel? pi?a nemaz neaizdom?j?s par t?diem niekiem k? ?tika un savas r?c?bas sek?m. Savuk?rt uztrauģ?s instit?cijas sav? v?lm? regul?t industriju ?paši

neatš?iras no pasaules vid?j? l?me?a, tas ir nedar?t neko un cer?t, ka viss p?ries pats no sevis. Nevar teikt, ka ?audis nezin?ja, šis, iesp?jams, bija visu laiku slikt?k sl?ptais nosl?pums pasaul?. Laiku pa laikam k?ds ba??ieris s?ka izmekl?šanu, k?da instit?cija sap?oja par paraugpr?vu, k?ds zin?tnieks tika pie doktora gr?da, bet pa lielam industrijai bija vienalga. Lai cik smiekl?gi tas neliktos, briti saros?j?s tikai, kad amerik??i nol?ma uztais?t paraugpr?vu. Tad p?kš?i visi s?ka mekl?t aizsardz?bu sav?s jurisdikcij?s, jo amerik??u cietumos neviens nev?l?j?s s?d?t.

Gr?matai lieku 7 no 10 ball?m. Autors m?l izpl?st un atk?rtoties, las?t var un vajag, ta?u pietr?kst kodol?guma.

David says

The Rest of the Story: Since this book's publication, the following related events have taken place:

- Libor will be phased out in 2021.
- Two Barclays traders acquitted of Libor-related charges in the UK. I believe these are the prosecutions mentioned in a footnote at Kindle location 7082.
- Two other traders, from Dutch Rabobank, had their US convictions overturned. The convictions are mentioned in this book at location 5917.
- Tom Hayes, the “Math Genius” of the title, has complained to police that a government witness at his trial misled the court.

Also, the “Tom Hayes Support Group” (“crowdfunding for a new appeal”) has a Twitter feed, website, and a fundraising site. The website calls author David Enrich's Wall Street Journal account of the Hayes-Libor scandal (upon which this book expands) “the most accurate printed version to date”.

Book Review: This book's strength is also its weakness.

A book like this is a witness, and as a witness this is a great book. The author explains that, in an instance of good fortune which tends to find people who work hard, he got both Hayes and his wife, after the conviction of Hayes, to put an enormous pile of previously off-the-record communications on the record. He also acquired another “journalistic gold mine” (l. 5976) – evidence amassed by the Britain's Serious Fraud Office in their investigation of Hayes and others.

That's a lot of information, and Enrich does a good job sorting and explaining it. Sometimes you have to go flipping back and forth to the “cast of characters” in the front, when (for example) somebody who hasn't been mentioned for 30 pages suddenly pops back into the story. But, on the whole, the story was easy to follow, not as easy as a novel perhaps but well within the ability of anyone with the average amount of patience.

However, a book like this is also a story, and as a story this is only a good book. The book's portrayal of virtually everyone involved, including Hayes and (to a lesser extent) his wife, is damning. Everyone involved with this scandal (traders and their supposed regulators, lawyers and clients, executives and working-level folk) seemed to behave abominably. I guess the author called it the way he saw it. He certainly had enough evidence. But it's hard to read hundreds of pages of relentlessly awful behavior, even if it's all true. If I wanted that, I'd pay more attention to the news.

At one point, Michael Lewis gets a shout-out (as one of Hayes' favorite authors) and there are obvious parallels here with The Big Short: Inside the Doomsday Machine – the autistic main character, the rampant

greed, and self-serving regulatory stupidity, to name a few. But Lewis managed to extract a few characters (including the autistic man) who, while occasionally irritating, are clearly on the right side of history and are, in their own small way, heroic, which was a welcome relief from the rest of the book. Nothing like that here. Everyone is, simply, greedy, ungenerous, and short-sighted. No one is interested in fairness and justice except occasionally as cloaks to advance their narrow interests.

I think it's important to read about things like this to stiffen my resolve against the hellish chorus of those who say black is white, up is down, and leaving everyone to act in their self-interest is best for society. But resolve-stiffening can sometimes be a little like taking medicine: you know it's good for you, but you don't always like it while you are doing it.

Athan Tolis says

Yesterday, (April 6, 2017) the very same Southwark Crown Court that had previously sentenced Tom Hayes to 14 years in prison arrived at a very different decision in the case of his Barclays counterparts, Ryan Reich and Stylianos Contogoulas, making for some very poignant reading as I was finishing The Spider Network.

The argument David Enrich builds over 450 fact-packed pages could not be simpler: on both sides of the Atlantic the justice system is starved of both resources and expertise and has repurposed itself to closing cases by pinning them on the lowest credible perpetrator; conversely, recent troubles notwithstanding, the banking giants control billions and deal in trillions. When the world went upside down in 2008 and the public was baying for blood, a natural alliance was formed between the justice system and the banks with the simple aim of bigging up and scapegoating an Aspergers' sufferer who had been careless about the manner in which he'd gone about doing the job his superiors 100% knew he was doing, had fully encouraged him to do and had headhunted him from one bank to another to carry on doing.

I totally buy it, and, now there's one guy behind bars to atone for everybody's sins, so do the courts, it seems.

And yet, for all its unspeakably detailed portraits, histories and descriptions, for all the evident access the author has had to the main characters in this play, the book is a failure. The reason is simple: it ducks the main issue, which cannot possibly have been "was Tom Hayes framed," much as he undeniably was. The big issue, that sadly goes unanswered in this book, has to be "is it unethical to mess with LIBOR?"

Disturbingly, it is not only the government and the justice system that lacks basic knowledge of finance, but also, it seems, our corps of financial journalists. In summary, the Wall Street Journal's financial investigations editor is not equipped to judge on the merits or otherwise of banks going low or going high in their LIBOR submissions. In a 450 page book he devotes a page and a half to a hastily-put-together, self-professed list of potential "victims" of the "LIBOR fraud" and not one sentence on whether we should carry on using LIBOR in the future or not.

A month ago I read "The Fix," which is actually a bad book covering the exact same story as "The Spider Network," (I'd go as far as to say that with the benefit of hindsight it feels plagiarized from the serialized version of this book) so I'll copy verbatim what I wrote when I reviewed it. To wit,

"Somebody from inside the market will one day write a book about all this that will be worth reading, and allow me to take you through the main ideas it should contain:

1. Markets were once small. At that time, the feeling was that they were best left to the people who operated

inside them. Over the years, however, (mainly due to demographic reasons) they ballooned in size from roughly 1 GDP around 1980 to roughly 6 GDPs today and (more importantly) they became very widely-held. It thus became the job of government not only to sustain them (zB via the Greenspan put) but also to make sure that an idiot could get involved without getting hurt. So Salomon was punished in 1991 for overbidding in auctions (pause to think how weird that is), Deutsche some ten years later for forcing suboptimal delivery in the Bobl contract (that only professionals can trade and whose rules were on the book for a decade), rule NMS forced everybody to give “best execution” a few years after that (and gave rise to the “Flash Boys”) and some poor bastard went to jail last year for...spoofing, believe it or not. Imagine if real estate brokers got jailed for that! Tom Hayes’ main crime was that he was doing in year 2005 stuff that stopped being acceptable (between us girls) around 1995. And UBS was the kind of shop where nobody knew to put him in his place. E basta.

2. The true crimes of finance in this century, the ones bankers ought to have been punished for, but got away with, came in exactly two flavors: (i) crimes involving the little guy (post Edwin Artzt we leave the big guy alone), who was lured into borrowing money he would never be able to pay back to buy assets, goods and services he could not afford, and indeed put in competition with the fellow little guy to buy the house in the good school district, the nice vacation, the boat etc. You can say he brought it on himself, but that would be unfair: if borrowing is what it will take to send your kids to the better school or to keep your spouse from divorcing you, you are put in a tragic position. We all know how that ended, with home ownership in the US first rising to 69% and then falling to 61%. And with Spanish families being sweet-talked into buying the sub debt of their home lender etc. etc. (ii) post Glass-Steagall, crimes involving the discounting of decades of receivables that were to be found in the loan books of banks using the mark-to-mark methods found at the investment banks they were allowed to merge with and the conversion of this spurious P&L into bonus, resulting in the urge to “source” even more, often dubious, receivables.

The two above trends fed into each other, rather famously, and the crash in the market for CDOs, CLOs and the squares thereof, SIVs and side-pockets has only really resulted in three convictions thus far, the rather interestingly named Lee Farkas the email-shy Karim Serageldin, and now the hapless Tom Hayes, who had zilch to do with it, but had confessed to a completely unrelated misdemeanor, had spent some of his employers’ money on petty bribes and rubbed the judge the wrong way with his curt answers. 50k fine and an industry ban would not have been terribly lenient, if you ask me.

Meanwhile, the people whose fiduciary duty it was to make sure the abolition of Glass-Steagall did not result in this mess not only walk the streets, but are regularly invited to tell us where it’s at.

3. There is no free lunch. If you are going to buy a valuable service, you will have to pay for it. Either (i) it works like it does for goods, where there is a wholesale price between professionals and a retail price for customers and you don’t care that the shoes you paid 100 for cost the merchant 30, or alternatively (ii) you pay what is advertised as the wholesale price, but in reality the wholesale price moves around and it’s higher when you are paying it. If it’s not one of those two, then the guy who is selling you the service will go out of business and you won’t be able to buy that service again. That is, for example, the business model behind the New Zealand time zone. It is the time when FX trades the least, so you can move the price against your customers’ orders. Significantly, customers know this. It is a convention they accept.”

With this rather large parenthesis out of the way, and since the author has decided to dodge it, allow me to opine on the main issue here, namely “is it unethical to mess with LIBOR?”

I will do so in three parts and I will start with the “bond math:”

1. A swap has two legs, fixed and floating. When you first enter a swaps trade, the fixed leg has a rate that is equal to a blended average of the fair price you would pay for the expected value of all the future LIBOR fixings of the floating side.

2. A basis point change in the fixed side changes the mark-to-market value of the entire swap. A basis point change in the LIBOR fixing only changes the accrued interest of the very next three-month or six-month payment.

Conclusion: Tom Hayes' "crimes" have zero to do with the type of activity that brought us the financial crisis. They belong to the "accrual" column rather than the "mark-to-market" column of the ledger. It is an absolute triumph of the banking industry that it managed to deflect the scrutiny of the authorities and the ire of the general public to an issue that is pretty much at right angles with the crash of 2008.

Second, derivatives transactions between banks (at anywhere between 500 trillion and one quadrillion dollars) are a large multiple of transactions between banks and their real-world clients (at well under 30 trillion). This is actually a protection for clients. Because they borrow money against LIBOR, clients collectively pay LIBOR fixings. The fact that all these derivatives exist means the banks' incentive that would normally have been to always set LIBOR high is mitigated by the fact that transactions with corporate clients are a small part of every bank's book.

The author does pick on this when he mentions that in Tom Hayes' catalog of trades not a single one was with a non-bank, non-hedge fund. Bottom line, banks are so busy trying to cheat each other on the first coupon of their derivatives that this activity actually provides cover to the corporates that borrow against LIBOR.

I'd go one further and say corporates fully know this, and that's how come they are comfortable fixing their issues off of LIBOR! And of course, they also benefit when in times of crisis banks low-ball their submissions to look solvent.

So we have established that cheating on LIBOR (i) has zero to do with the financial crisis and (ii) by-and-large benefits, rather than hurts, clients, but I still need to get to the third point I promised: "is it wrong to mess with LIBOR?"

When my friend Andrew Hulme first joined the traders on the arb desk at Salomon in the early nineties, they started him on the Danish book. Rates worldwide were coming off, so he picked up the phone to a Danish bank and, Salomon style, received fixed in a billion DKK. Rates came off, as expected, and a few days later he closed it out with a tidy profit, paying fixed on a billion DKK.

A short six months later, there was some screaming from across my desk. CIBOR had fixed 30 (count'em) basis points higher. Out of the blue! Did not really cost him a bomb. Even on a yard, the fifteen cents that corresponded to the 30 basis points of 6m fixing was a mere 1.5 million DKK, which only really registered with poor Andrew.

Next morning, the CIBOR fixing was straight back down to where it had been the day before. The thieving Danish banks had all put up their fixing by 30 basis points as a favor to Andrew's counterparty. The message was clear: stay out of our market.

Andrew knew what to do, his bosses did not need to tell him. Had he left things as they were there would be no immediate impact to his book, but every time he had a fixing, the Danes would collude to take 30bp from him. He called up his original counterparty, with whom he's luckily done both trades, and asked what it would cost to cancel them both. When the guy on the other side of the phone sucked air through his teeth and said it would cost us money, Andrew made the correct decision that he would "pay up and look big."

Did he stop trading DKK? Hell, no! But from that day onward he played in smaller size that would not make it sensible for people to gang up on him. He stopped being the brash American investment bank and played "Danish rules." Profitably, too.

In short, we investment banking-side dealers have long had to pay tribute (in terms of shifting LIBOR fixings) to the rate-setting banks and the problem first got weaponised when banks and investment banks merged after 1999, before innovation came in and diffused it all in the form of fixing-matching services. But it's never been anything much more than a "cost of doing business."

Which brings me to my conclusion: Tom Hayes was a killer trader. He played all the angles. He left nothing on the table. And that included the LIBOR fixings. That he carried on doing so in 2008 shows he had a tin ear for politics, but most certainly does not make him a criminal. Merely a guy who did not realize the rules of the game had changed.

Christina says

An interesting look at the Libor scandal from an American investigative journalist lens.

The book charts the story of how the Libor rate - the London interbank lending rate that many variable-rate products such as credit cards depend on - was manipulated, thus affecting many unsuspecting individuals worldwide.

This is a book for those that don't have much understanding of the financial workings that underpin the financial sector, with simple-to-understand explanations and examples to illustrate the issues. For those that do, there are some fascinating snippets of the history of financial instruments and the characters behind them, although you'd have to (like I had to) grin and bear the at times over-zealous banker-bashing that the author occasionally gets drawn into. Overall, an interesting mix of investigative journalism and history that would have been brilliant had it not viewed every person and action from a bitterly critical perspective.

*Thank you to the publisher for my free review copy via NetGalley.

Michael Johnston says

The most disturbing thing about this book wasn't the fraud. It was the culture that incentivized and looked the other way while the fraud was committed. I lived in this world (the world of "Wall Street") for more than 20 years. I saw the culture from the inside and Enrich absolutely nailed what it felt like. Customers are dopes to be taken advantage of; human value is determined by how much money you make and ethical values are a sign of weakness. It is insidious and takes a toll on how one views the world.

That is not to suggest that there is no one in financial services with morals - I'm sure there are some. But the culture of big money banks provides ample incentive to ignore the rules created to assure fairness in the marketplace. If someone isn't smart enough to avoid being cheated, the unwritten rule states, then they deserve what they get.

It is appalling how widespread the LIBOR fixing fraud was and how few were held to task for defrauding the average Joe. Yet, that has been the recurring pattern in all of the major Wall Street based financial fraud cases. Someone is singled out as the scapegoat and all the senior managers, who are aware but look the other way, get off without even a slap on the wrist.

My career never crossed paths with the legions of traders and brokers who played the game of fixing LIBOR, but I recognized them all. I have seen their counterparts in other areas of the business. Part of the culture is

the disturbing, but ubiquitous thinking that if everyone is doing it, it must be ok.

Reading this book brought back all of those memories and was a disturbing reminder of why I ultimately left that field.

Yet, I would take exception with one aspect of Enrich's story. He makes Tom Hayes (the trader at the center of the LIBOR fixing prosecution) something of an innocent. He is portrayed as someone whose Aspergers made him trust the wrong people and blinded him to the ethical right and wrong of his actions. I do not doubt that Hayes was the scapegoat in this story - the fall guy for a system and culture that wanted his gains and ignored his methods. But he is no hero. He committed fraud on a large scale. Perhaps, as Enrich suggests, he was the fly in the spider web rather than the spider. Perhaps he was the victim of others rather than the mastermind of the strategy. Nonetheless, he was guilty. He never once asked himself whether what he was doing was wrong.

I don't think he deserved the sentence he received - or more accurately, I think others deserved his harsh sentence more. But there is no excuse for his actions.

What is most disturbing is that the victory party at the end of the book reinforces the reality that nothing changed. Somewhere on Wall Street, someone is committing financial fraud by bending or ignoring the rules. Somewhere someone is telling themselves, "well if everyone is doing it, it must be ok." I fear that the system will never change. And perhaps that is the most frightening thing of all.

Charlene says

Captivating. Read like fiction.

Mjdrean says

Usually anything financial confuses and bores me. While I admit to skimming though a good portion of the "financial" stuff, I did thoroughly enjoy the people part, the journey to exposure and the author's "novelish" approach. It also left me exhausted at the thought of the mountains of tedious research he wrangled into a superior read. In the end, I realized what I thought all along about the greedy money people is even worse.
