Barclays PLC

What is the Barclays fraud case about?

Advisory service agreement struck with Qatar is at the heart of the SFO's case

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JUNE 20, 2017 by: Caroline Binham

What is the case about?

The Serious Fraud Office is accusing the bank and four of its former senior staff of lying, or not fully disclosing to the market what it was paying Qatari investors as they were ploughing billions of pounds into Barclays to stave off a UK taxpayer bailout.

The SFO's case — along with that of the regulator, and a $1bn lawsuit filed by Amanda Staveley, the financier who put the Abu Dhabi side of the October deal together — relate to an advisory service agreement, or ASA, struck with Qatar at the time of the fundraisings in 2008. The first cash call and original ASA was in June of that year; the second deal in October then extended the agreement. The ASA in total pledged £322m to Qatar in exchange for helping to develop Barclays' services in the region. The bank then loaned Qatar's ministry of finance $3bn just as the October deal was closing.

The £2.4bn in total that was pledged to Qatar matched what the tiny Gulf State initially invested in Barclays, leading to questions over whether what was going on was

inducement, or lending to reinvest back in the bank. The bank has previously said that the ASA's fees were for legitimate services, and that the loan had a specific clause outlawing any such reinvestment.

Why did Barclays need the money?

In June 2008, the financial crisis had begun to bite but was yet to reach its nadir. Several other UK banks, including Royal Bank of Scotland, had undertaken rights issues — controversial now in their own right — and Barclays felt it needed to shore up its balance sheet. In June, Qatar, along with Temasek of Singapore, among others, invested £4.1bn into Barclays, mainly through subscribing for ordinary shares, priced at 282p.

But by October, the financial crisis had worsened. Lehman Brothers' historic collapse had roiled markets, and the UK Treasury held a series of emergency meetings on whether to bail out four banks, including Barclays. But the latter managed to persuade the government that it could boost its balance sheet by selling off its asset-management arm and raising external capital — even though its shares were then trading at 207.5p. It tried to sell debt to institutional investors but had little positive response. That led to the £7.3bn October fundraising now at the heart of the charges.

Why does it matter whether the bank disclosed to the market all the details?

While the existence of the original ASA was disclosed to the market as part of the approved June prospectus, the amount was not. The extension of the ASA that accompanied the fundraising in October, which was structured predominantly as a debt deal on the Qatari side, was not disclosed. There are different disclosure requirements for equity and debt deals. The $3bn loan to Qatar's ministry of economy and finance just as the second fundraising was closing, was also not disclosed.

Credit Suisse reached a similar agreement with Qatar also in October 2008 as the Swiss bank undertook its own SFr10bn capital raising, but unlike Barclays, disclosed the loan that had been approved by Swiss regulators. The Swiss authorities made an exception to avert market panic.

The principle of disclosure to the market assures investors that no one participant is getting a better deal than others. The concern is that if a bank lends money to a cornerstone investor at the same time as a fundraising then it could potentially be

perceived as secret financial assistance through propping up the company's share-price, as happened in the famous Guinness share-trading fraud in the 1980s.

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