Financial Conduct Authority

FINAL NOTICE

To: **Barclays Bank PLC**

Firm Reference Number: **122702**

Date: **20 May 2015**

1. PROPOSED ACTION

1.1. For the reasons given in this Notice, the Authority hereby imposes to impose on Barclays Bank PLC ("Barclays") a financial penalty of £284,432,000.

1.2. Barclays agreed to settle at an early stage of the Authority's investigation. Barclays therefore qualified for a 20% (Stage 2) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £355,540,000 on Barclays.

2. SUMMARY OF REASONS

2.1 The foreign exchange market ("FX market") is one of the largest and most liquid markets in the world.[1] Its integrity is of central importance to the UK and global financial systems. Over a period of five years, Barclays failed properly to control its London voice trading operations in the G10 spot FX market, with the result that traders in this part of its business were able to behave in a manner that put

[1] The daily average volume turnover of the global FX market was over USD5 trillion in April 2013 according to the Bank for International Settlements (BIS) Triennial Central Bank Survey 2013.

Barclays' interests ahead of the interests of its clients, other market participants and the wider UK financial system. Similar failings occurred in the following other areas of Barclays' FX voice trading business in London:

(1) Emerging Market ("EM") spot FX;

(2) G10 and EM FX options; and

(3) G10 and EM FX sales operations associated with its FX business.

2.2 References in this Notice to Barclays' FX business refer to its G10 and EM spot and options voice trading desks and their associated sales desks based in London.

2.3 The Authority expects firms to identify, assess and manage appropriately the risks that their business poses to the markets in which they operate and to preserve market integrity, irrespective of whether or not those markets are regulated. The Authority also expects firms to promote a culture which requires their staff to have regard to the impact of their behaviour on clients, other participants in those markets and the financial markets as a whole.

2.4 Barclays' failure adequately to control its FX business is extremely serious, especially with regard to its potential impact on the spot FX market. The importance of the spot FX market and its widespread use by market participants throughout the financial system means that misconduct relating to it has potentially damaging and far-reaching consequences for the FX market and financial markets generally. The failings described in this Notice undermine confidence in the UK financial system and put its integrity at risk.

2.5 Barclays breached Principle 3 of the Authority's Principles for Businesses in the period from 1 January 2008 to 15 October 2013 ("the Relevant Period") by failing to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems in relation to its FX business in London.

2.6 During the Relevant Period, Barclays did not exercise adequate and effective control over its FX business. Barclays relied primarily on its front office FX business to identify, assess and manage risks arising in that business. The front office failed adequately to discharge these responsibilities with regard to obvious risks associated with confidentiality, conflicts of interest and trading conduct.

2.7 The right values and culture were not sufficiently embedded in Barclays' FX business, which allowed it to act in Barclays' own interests as described in this Notice without proper regard for the interests of its clients, other market participants or the wider UK financial system. The lack of proper control by Barclays over the activities of staff in its FX business undermined market integrity and meant that misconduct went undetected for a number of years. Barclays' control and risk functions failed to challenge effectively the management of these risks in the FX business.

2.8 Barclays' failings in its FX business allowed the following behaviours to occur:

(1) Attempts to manipulate the WMR and the ECB fix rates in collusion with traders at other firms for Barclays' own benefit and to the potential detriment of certain of its clients and/or other market participants;

(2) Attempts to trigger clients' stop loss orders for Barclays' own benefit and to the potential detriment of those clients and/or other market participants; and

(3) Inappropriate sharing of confidential information internally and with third parties, including other market participants. The information included specific client identities and information about clients' orders.

2.9 In addition, Barclays' failings meant that staff in its FX options business had the opportunity to engage in attempts to manipulate fix or spot FX rates to the benefit of Barclays' trading positions in FX options and to the potential detriment of clients and/or other market participants.

2.10 These failings occurred in circumstances where certain of those responsible for managing front office matters were aware of and/or at times involved in some of the behaviours described above. They also occurred despite the fact that risks around confidentiality were highlighted when Barclays was made aware in March 2012 that certain staff in its FX business had inappropriately shared information allowing a specific client's transactions to be identified outside the firm.

2.11 Barclays was on notice about misconduct associated with LIBOR / EURIBOR and the Gold fixing during the Relevant Period. The Authority issued a Final Notice and a financial penalty against Barclays on 27 June 2012 in relation to benchmark setting for LIBOR / EURIBOR. The Authority issued a Final Notice and a financial penalty against Barclays in relation to the Gold fixing on 23 May 2014. Against this background, Barclays engaged in an extensive remediation programme across its businesses in response to LIBOR / EURIBOR, including taking important steps to promote changes to culture and values. Barclays also enhanced its systems and controls in relation to the Gold fixing. Despite these improvements, the steps taken during the Relevant Period in its FX business did not adequately address the root causes that gave rise to the failings described in this Notice.

2.12 The Authority therefore imposes a financial penalty on Barclays in the amount of £284,432,000 pursuant to section 206 of the Act.

2.13 The Authority acknowledges the significant co-operation and assistance provided by Barclays during the course of its investigation. The Authority recognises that Barclays acted promptly in bringing the behaviours referred to in this Notice to the Authority's attention. Barclays is continuing to undertake remedial action and has committed significant resources to improving the business practices and associated controls relating to its FX operations. The Authority recognises the work already undertaken by Barclays in this regard.

2.14 This Notice relates solely to Barclays' conduct in its FX business in London. It makes no criticism of any entities other than the firms engaged in misconduct as described in this Notice.

3. DEFINITIONS

3.1. The definitions below are used in this Final Notice.

"the Act" means the Financial Services and Markets Act 2000

"the Authority" means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority

"the BoE" means the Bank of England

"the BIS survey" means the Bank for International Settlements (BIS) Triennial Central Bank Survey 2013

"CDSG" means the BoE's Chief Dealers' Sub-Group

"clients" means persons to whom a firm provides FX voice trading services

"ECB" means the European Central Bank

"1:15pm ECB fix" or "ECB fix" is the exchange rate for various spot FX currency pairs as determined by the ECB as at 1:15pm UK time

"EM currencies" means all currencies traded by Barclays not included within G10 currencies

"EURIBOR" means the Euro Interbank Offered Rate

"firms" means authorised persons as defined in section 31 of the Act

"FX" means foreign exchange

"FX business" means Barclays' spot FX and options voice trading desks in G10 and EM currencies and their associated sales desks based in London

"G10 currencies" means the following currencies:

USD	US dollar
EUR	Euro
JPY	Japanese yen
GBP	British pound
CHF	Swiss franc
AUD	Australian dollar
NZD	New Zealand dollar
CAD	Canadian dollar
NOK	Norwegian krone
SEK	Swedish krona

"LIBOR" means the London Interbank Offered Rate

"the ACI Model Code" means the Model Code issued by the ACI – the Financial Markets Association, as applicable during the Relevant Period

"net client orders" has the meaning given to that term at paragraph 3.2 of Annex B to this Notice

"the NIPS Code" means the Non-Investment Products Code, as applicable during the Relevant Period

"the Principles" means the Authority's Principles for Businesses

"Reuters" means the Reuters Dealing 3000, an electronic broking platform operated by Thomson Reuters

"the Relevant Period" means 1 January 2008 to 15 October 2013

"spot FX" has the meaning given to that term in paragraph 4.3 of this Notice

"the spot FX rate" means the current exchange rate at which a currency pair can be bought or sold

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber)

"the UK financial system" means the financial system operating in the United Kingdom, including financial markets and exchanges, regulated activities and other activities connected with financial markets and exchanges

"4pm WM Reuters fix" or "WMR fix" is the exchange rate for various spot FX currency pairs determined by WM Reuters as at 4pm UK time

4. FACTS AND MATTERS

Relevant background

The FX market

4.1. The FX market, in which participants are able to buy, sell, exchange and speculate on currencies, is one of the largest financial markets in the world. Participants in the FX market include banks, commercial companies, central banks, investment management firms, hedge funds and retail investors.

4.2. The most significant currencies traded in the FX market are G10 currencies in terms of turnover and their widespread use within global financial markets. According to the BIS survey, the global FX market had a daily average volume turnover of over USD5 trillion in April 2013. Almost 75% of this global FX trading was conducted in G10 currency pairs, with a daily average turnover of around USD4 trillion. The remaining global FX trading, amounting to over USD1 trillion in daily average turnover, takes place in EM currencies. The top currencies by daily volume of FX trading in April 2013 were US dollar, Euro, Japanese yen and British pound, with the largest turnover in EUR/USD, USD/JPY and GBP/USD currency pairs.

4.3. The FX market includes transactions involving the exchange of currencies between two parties at an agreed rate for settlement on a spot date (usually two business days from the trade date) ("spot FX"). Benchmarks set in the spot FX market are used throughout the world to establish the relative values of different currencies and are of crucial importance in worldwide financial markets. In particular, benchmarks such as the 4pm WM Reuters and 1:15pm ECB fixes are used in the valuation and performance management of investment portfolios held by pension funds and asset managers both in the UK and globally. The rates established at these fixes are also used as reference rates in financial derivatives.

4.4. A fuller description of the spot FX market and the background matters described below is set out in Annex B to this Notice.

The 4pm WM Reuters fix and the 1:15pm ECB fix

4.5. Two of the most widely referenced spot FX benchmarks are the 4pm WM Reuters fix and the 1:15pm ECB fix, which are each used to determine benchmark rates for various currency pairs. These fixes are based on spot FX trading activity by market participants at or around the times of the respective 4pm WM Reuters or 1:15pm ECB fixes.

Fix orders

4.6. Prior to a fix, clients often place orders with a firm to buy or sell a specified volume of currency "at the fix rate". This is a reference to the rate that will be determined at a forthcoming fix and the firm agrees to transact with clients at that rate.

4.7. By agreeing to transact with clients at a fix rate that is yet to be determined, the firm is exposed to rate movements at the fix. A firm will typically buy or sell currency in order to manage this risk, for example by trading in the market or "netting off" (e.g. where a firm has a buying interest for the fix and trades with a market participant which has a selling interest for the fix).

4.8. A firm with net client orders to buy currency at the fix rate will make a profit if the average rate at which the firm buys the currency in the market is lower than the fix rate at which it sells to its clients. Similarly, a firm with net client orders to sell currency at the fix rate will make a profit if the average rate at which it sells the currency in the market is higher than the fix rate at which it buys from its clients.

4.9. A firm legitimately managing the risk arising from its net client orders at the fix rate may make a profit or a loss from its associated trading in the market. Such trading can, however, potentially influence the fix rate. For example, a firm buying a large volume of currency in the market just before or during the fix may cause the fix rate to move higher. This gives rise to a potential conflict of interest between a firm and its clients. It also creates a potential incentive for a firm to seek to manipulate the fix rate to its benefit and to the potential detriment of certain of its clients. For example, there is a risk that a firm with net client orders to buy a particular currency at the fix rate might deliberately trade in a manner designed to manipulate the fix rate higher. This trading could result in a profit for the firm as described above, but may result in certain clients paying a higher fix rate than they would otherwise have had to pay.

Fix Orders – The Bank of England

4.10. The BoE through its membership of the CDSG[2] was made aware during the Relevant Period of firms using electronic messaging services, such as chat rooms, to discuss their net orders ahead of fixes and the practice of netting off between them. For the avoidance of doubt, the Authority does not consider that the netting off of orders ahead of fixes is inappropriate in all circumstances. The Authority has concluded that the fact that netting off was discussed

[2] The CDSG is a sub-group of the London Foreign Exchange Joint Standing Committee established under the auspices of the BoE. Its membership is drawn from a selection of chief dealers active in the London FX market and is chaired by a representative of the BoE.

by the CDSG does not affect the liability of the firms. Each firm was responsible for ensuring that it had appropriate systems and controls to manage the risks associated with these practices. The BoE has conducted its own investigation into the role of its officials in relation to certain conduct issues in the FX market and an independent report regarding these matters was published on 12 November 2014.[3]

Stop loss orders

4.11. Clients place stop loss orders with a firm to help manage their risk arising from movements in currency rates in the spot FX market. By accepting these orders, the firm agrees to transact with the client at or around a specified rate if the currency trades at that rate in the market. No binding agreement is made until the agreed rate has been "*triggered*" (i.e. when the currency trades at that rate in the market).

4.12. By agreeing to transact with a client at or around the specified rate, the firm is exposed to movements in the spot FX rate. A firm will typically buy or sell currency in the market in order to manage this risk. This trading can result in a profit or a loss for the firm. For example, a client's stop loss order to buy currency can result in a profit for the firm if the average rate at which the firm buys the currency in the market is lower than the rate at which it sells the currency to the client pursuant to the stop loss order.

4.13. A firm legitimately managing the risk arising from a client's stop loss order may profit from the trading associated with its risk management. There is, however, a potential incentive for a firm to manipulate the spot FX rate in order to execute stop loss orders for the firm's benefit and to the potential detriment of its client. For example, a firm with a client stop loss order to buy a particular currency might deliberately trade in a manner designed to manipulate the spot FX rate higher in order to trigger the client's order at the specified rate. This could result in the firm making a profit as described above. The client could be disadvantaged, however, since the transaction may not have happened at that time or at all but for the firm's actions.

[3] The report prepared by Lord Grabiner QC is available at:
http://www.bankofengland.co.uk/publications/Documents/news/2014/grabiner.pdf

FX options

4.14. An FX option gives the buyer of the option the right, but not the obligation, to enter into a spot transaction to buy ("call") or sell ("put") a certain volume of a currency pair at a specified rate (the "strike rate") or receive a fixed payment on or before an agreed date (the "expiry" or "settlement" date). The buyer (e.g. the client) pays the seller (e.g. the firm) an amount called a premium in exchange for any option.

4.15. By giving the client the right to trade a currency pair with the firm, the firm is exposed to movements in the spot FX rate for the duration of the option. The firm will typically buy or sell that currency pair in the market in order to manage this risk.

4.16. Certain types of options may only come into existence or expire if the currency pair in question trades at a particular fix or spot FX rate in the market. Such options may involve "discontinuous pay-outs", that is to say the pay-out profile associated with the option changes dramatically if certain triggers are satisfied (e.g. a currency pair trades at a particular rate).

4.17. An example of such an option is a "barrier" option. This type of option either expires worthless or activates and results in a fixed payment or the right to another option if a particular rate or barrier in an underlying currency pair trades in the market. While a firm legitimately managing the risk arising from such an option may make a profit or loss from its associated trading, there is a potential incentive for a firm to manipulate the relevant fix or spot FX rate in order to benefit its options position. For example a firm that has traded barrier options with a client might seek to trade in a manner designed to manipulate a fix or spot FX rate in the market in order to ensure that those barrier options or fixed payments are not activated or expire worthless.

4.18. These steps could result in a profit for the firm which has received a premium from the client and potentially avoided making a pay-out to the client.

Electronic messaging through chat rooms or similar

4.19. It was common practice during most of the Relevant Period for staff in firms' FX businesses to use electronic messaging services, such as chat rooms, to communicate internally and/or with other market participants, such as traders at other firms or clients. While such communications are not of themselves inappropriate, the frequent and significant flow of information internally and between market participants increases the potential risk of inappropriate sharing of confidential information and/or staff engaging in collusive activity. It is therefore especially important that firms exercise appropriate control and monitoring of such communications.

FX operations at Barclays

4.20. Barclays is a full service bank, headquartered in London, with operations in retail, wholesale and investment banking as well as wealth management, mortgage lending and consumer credit.

4.21. Barclays' FX business was part of Barclays' investment banking division ("Investment Bank"). In September 2010, the Fixed Income, Currencies and Commodities business unit ("FICC") was created within the Investment Bank and Barclays' G10 and EM FX businesses became individual business areas within FICC. The G10 business (known within Barclays as "GFX") included G10 FX voice trading for spot, forwards and options and all FX electronic trading. At the time the EM business was separate to the GFX business and included EM FX voice trading for spot, forwards and options. Sales teams covering FX products were part of FICC. Barclays' FX business activities were conducted primarily in London, New York, Singapore and Tokyo during the Relevant Period. According to the Euromoney[4] FX Survey 2013, Barclays was listed in the top seven firms in terms of market share in global FX trading in spot and forwards.

4.22. Barclays employed a "three lines of defence" model to manage the risks associated with its FX business. Under this model, responsibility for the control environment in the business resided in the relevant business area's management (the first line of defence), with support from control functions such as Compliance, Risk and Legal (the second line of defence) and Internal Audit (the third line of defence).

[4] Euromoney is an English-language monthly magazine focused on business and finance. First published in 1969, it covers global banking, macroeconomics and capital markets, including debt and equity.

Systems and controls failures at Barclays

4.23. In accordance with Principle 3, Barclays was under an obligation to identify, assess and manage appropriately the risks associated with its FX business, given the potentially very significant impact of misconduct in that business on FX benchmarks, the FX market generally and the wider UK financial system. Barclays failed to do so adequately during the Relevant Period in relation to risks associated with confidentiality, conflicts of interest and trading conduct in its FX business in London.

4.24. There are no detailed requirements for systems and controls concerning FX trading in the Authority's Handbook. The importance of firms implementing effective systems and controls to manage risks associated with their FX businesses was nonetheless recognised within the market, as evidenced by a number of industry codes published from time to time from 1975 onwards.

4.25. The codes applicable during the Relevant Period expressly recognised:

(1) That manipulative practices by firms constituted *"unacceptable trading behaviour"* in the FX market;[5]

(2) The need for FX trading management to *"prohibit the deliberate exploitation of electronic dealing systems to generate artificial price behaviour"*;[6]

(3) The need for firms to manage the conflict of interest between a firm handling client orders and trading for its own account so as to ensure that *"customers' interests are not exploited"* and *"the fair treatment of counterparties"*;[7]

(4) The importance of firms requiring standards that *"strive for best execution for the customer"* when managing client orders;[8] and

(5) The fundamental importance of preserving the confidentiality of client information as *"essential for the preservation of a reputable and efficient market place"*.[9]

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[5] Paragraph 1 of Annex C
[6] Paragraph 1 of Annex C
[7] Paragraph 1 and 2.1 of Annex C
[8] Paragraph 1 of Annex C

4.26. The key provisions of these codes relevant to the matters in this Notice are reproduced in Annex C.

Failure adequately to identify, assess and manage risks in Barclays' FX business

4.27. Barclays failed to identify properly or take adequate steps to assess the risks described in this Notice associated with its FX business, and to manage them effectively during the Relevant Period.

4.28. As regards Barclays' G10 and EM spot FX voice trading and sales business in London, these risks arose in the context of spot FX traders and sales staff receiving confidential information regarding, among other things, the size and direction of its clients' fix orders and the size, direction and level of other client orders, including stop loss orders.

4.29. While receipt and use of such information for risk management purposes can be legitimate, there is a risk that the information could be improperly used or shared by those traders and/or sales staff, for example in order to trade for Barclays' benefit and to the disadvantage of certain of its clients. If disclosed by Barclays to other market participants, it could also enable those participants improperly to take advantage of this information for their own benefit and to the potential detriment of certain of Barclays' clients, acting either alone or in collusion with traders or sales staff at Barclays. This gave rise to obvious risks in Barclays' FX business concerning conflicts of interest, confidentiality and trading conduct. These risks were exacerbated, prior to August 2012, by the widespread use by Barclays' spot FX traders of chat rooms to communicate with other market participants.

4.30. The risks described in this Notice arose in Barclays' G10 and EM FX options business in London due to interaction between FX options and the spot FX market. FX options traders within Barclays typically managed some aspects of the risk associated with their options by buying or selling currency pairs through an internal electronic trading platform (BARX) or in the market through spot FX voice trading desks. While this activity could be legitimate, these traders could also seek to manipulate the relevant fix or spot FX rate to their advantage

[9] Paragraph 2.1 of Annex C

and to the potential detriment of certain of Barclays' clients. They could also potentially benefit from information about large client spot FX order flows at fixes or more generally, which they might use to determine their trading strategies. This gave rise to obvious risks around conflicts of interest, confidentiality and trading conduct.

4.31. Pursuant to its three lines of defence model, Barclays' front office had primary responsibility for identifying, assessing and managing the risks associated with its FX business. The front office failed adequately to discharge these responsibilities with regard to the risks described in this Notice. The right values and culture were not sufficiently embedded in Barclays' FX business, which allowed it to act in Barclays' own interests as described in this Notice, without proper regard for the interests of its clients, other market participants or the wider UK financial system. The lack of proper controls by Barclays over the activities of staff in its FX business meant that misconduct went undetected for a number of years. Certain of those responsible for managing front office matters were aware of and/or at times involved in some of that misconduct.

4.32. While Barclays had policies in place regarding risks of the type described in this Notice, they were high level in nature and applied generally across a number of Barclays' business divisions. At the highest level, there were Codes of Conduct applicable to all staff within Barclays, but these were very broad and not tailored to the FX business. At the next level, there were more specific policies covering a range of risks, including confidential information, conflicts of interest, external communications and electronic communications. These policies were not sufficiently clear or specific in their application to the FX business nor did they address adequately the key behaviours described in this Notice. For example, Barclays' policies on the handling of confidential information and conflicts of interest did not contain any specific guidance as to how these issues might arise or be appropriately addressed in its FX business. Other than certain limited guidance described below (which was introduced in the latter part of the Relevant Period), there were no policies aimed specifically at the FX business.

4.33. Barclays failed to take adequate steps to ensure that general policies concerning confidentiality, conflicts of interest and trading conduct were effectively implemented in its FX business. There was insufficient training and guidance on how these policies should be applied specifically to that business. They contained few practical examples about their application and inadequate guidance on what amounted to unacceptable behaviour by staff in its FX business. The absence of adequate training and guidance about the application of Barclays' general policies to its FX business increased the risk that misconduct would occur.

4.34. In October 2012, in response to a significant incident earlier in the year involving the inappropriate disclosure of confidential information to external parties, Barclays sent its G10 FX traders written instructions to cease using persistent multibank chat rooms. A number of G10 spot FX traders had stopped using multibank chat rooms around August 2012 following earlier oral instructions to the same effect. Barclays introduced guidelines on communications with clients and guidance on exchange of information with competitors in October 2012 and December 2012 respectively. These guidelines and guidance referred to the sharing of confidential information, however, they did not address fully the behaviours identified in this Notice. Training on the exchange of information with competitors was not provided in London until June 2013. A written instruction to exit chat rooms was not extended to the EM business until July 2013.

4.35. Guidance in relation to barrier options was issued in early March 2013. Barclays did not have the necessary controls in place to monitor compliance with this guidance.

4.36. Barclays' day-to-day oversight of the conduct of the staff in its FX business was insufficient. There was inadequate supervision by Barclays of its staff's conduct and use of chat rooms or similar communications during the Relevant Period. None of the systems and controls in Barclays' FX business were adequate to detect and prevent the behaviours described in this Notice.

4.37. Barclays' second and third lines of defence failed to challenge effectively the management of these risks by Barclays' front office. Prior to February 2013, Barclays had no automated communications monitoring system in place for its FX business in London, although there was some limited monitoring of communications. From February 2013 onwards, Barclays introduced some automated monitoring of chat rooms, but it continued to be ineffective in detecting key behaviours described in this Notice.

4.38. Barclays had certain FX trade monitoring in place in London during the Relevant Period, but it was not designed to identify the trading behaviours described in this Notice. A 2013 Risk Assessment conducted by Barclays reviewed the EMEA G10 FX spot, G10 FX options and EM FX businesses and identified the absence of formalised monitoring and surveillance in all three units:

(1) It noted risks around future settlement dates and large FX barrier option trades *"where derivative traders may seek to inappropriately influence spot traders to manipulate pricing in order to benefit options settlements"*.

(2) It noted the absence of formalised monitoring and surveillance as a major contributor to the residual risks, particularly derivatives traders seeking to influence spot traders to manipulate pricing and the risk of *"market abuse"* in EM FX.

(3) It noted more generally the risk of *"market abuse"* in EM currencies due to low volumes being traded in certain currencies.

(4) It proposed that the G10 spot FX business should *"Identify a budget and roll FX into FICC surveillance upgrade program"*.

4.39. For the reasons set out above, despite certain significant improvements made to Barclays' controls relating to its FX business, Barclays nonetheless failed during the Relevant Period to address or manage sufficiently the risks in that business. These failings were especially serious given the matters identified below.

Management awareness and/or involvement

4.40. Certain of those responsible for managing front office matters were aware of and/or at times involved in some of the behaviours described in this Notice.

LIBOR / EURIBOR

4.41. Barclays was on notice about misconduct associated with LIBOR / EURIBOR during the Relevant Period. The Authority issued a Final Notice and a financial penalty against Barclays on 27 June 2012 and against other firms subsequently in relation to misconduct around LIBOR / EURIBOR.

4.42. The Final Notices for LIBOR / EURIBOR highlighted, among other things, significant failings in the management and control of traders' activities by front office businesses at Barclays and other firms, including failing to address or adequately control conflicts of interest around benchmarks, inappropriate communications and other misconduct involving collusion between traders at different firms aimed at inappropriately influencing LIBOR / EURIBOR. The control failings had led to a poor culture with the front office lacking appropriate ethical standards and resulted in an ineffective first line of defence. They allowed trader misconduct around LIBOR / EURIBOR to occur undetected over a number of years.

4.43. After the Authority published its Final Notice in June 2012 in respect of LIBOR / EURIBOR, Barclays undertook a number of projects to assess whether similar issues could arise in relation to other benchmarks, including undertaking a wide ranging review programme to identify and understand the processes and associated risks for data submission (including benchmarks) and to establish an appropriate control framework for each submission type. It was planned that this programme would cover the FX business. Barclays also rolled out a number of bank-wide programmes and reviews to address issues of culture and risk. It engaged in remedial efforts at Group, Compliance and front office level which resulted in, among other things: the exiting of a number of benchmarks to which it contributed and the automation of others; enhanced management information tools and desk and supervisory procedures; and the redefining and strengthening of its Compliance function and development of a Compliance Monitoring and Testing framework.

4.44. Despite these improvements, Barclays failed to address fully in its FX trading business the root causes that gave rise to the failings described in this Notice. For example, the risks around conflicts of interest in that business were not addressed by Barclays. As a result, Barclays did not appropriately mitigate the risks of potential trader misconduct in its FX trading business.

Gold fixing

4.45. The Authority issued a Final Notice and a financial penalty against Barclays in relation to the Gold fixing on 23 May 2014. The subject matter concerned an attempt by a Barclays' Gold trader on 28 June 2012 to manipulate the Gold fixing on that day in order to benefit his position in an option product referencing the Gold fixing.

4.46. The Notice identified, among other things, significant failings around Barclays' systems and controls in relation to its participation in the Gold fixing in 2012. After the Authority published its Final Notice in May 2014, Barclays undertook a significant amount of work to review its systems and controls in relation to the Gold fixing and other reference rates in precious metals. This resulted in the implementation of policies and procedures related specifically to the Gold fixing, and a subsequent update to its systems to specifically record Gold fixing trades.

4.47. Despite being on notice of the Gold fixing issue since 2012, Barclays failed to make similar improvements to its FX options business until the introduction of the barrier options guidance in early March 2013, adherence to which (as noted above) could not be monitored by Barclays due to a lack of controls.

Inappropriate disclosure of confidential information

4.48. Barclays was alerted to deficiencies in systems and controls in its FX business in March 2012, when it was made aware by a client that a spot FX sales employee had inappropriately shared information allowing a specific client's transactions to be identified outside the firm. A Barclays' trader also posted the information in a chat room containing traders from other firms. Barclays conducted an investigation following this incident which resulted in improvements to the controls in the G10 spot FX trading business referred to at paragraph 4.33 of this Notice. Barclays failed, however, to identify the full extent of the risks of confidential information being disclosed in chat rooms.

Inappropriate trading behaviour and misuse of confidential information

4.49. Barclays' failure to identify, assess and manage appropriately the risks in its FX business allowed the following behaviours to occur:

(1) Attempts to manipulate the WMR and the ECB fix rates in collusion with traders at other firms for Barclays' own benefit and to the potential detriment of certain of its clients and/or other market participants;

(2) Attempts to trigger clients' stop loss orders for Barclays' own benefit and to the potential detriment of those clients and/or other market participants; and

(3) Inappropriate sharing of confidential information internally and with third parties, including with other market participants. The information included specific client identities and information about clients' orders.

4.50. Examples of the above behaviours are described below. In addition, Barclays' failings meant that staff in its FX options business had the opportunity to engage in attempts to manipulate fix or spot FX rates to the benefit of Barclays' trading positions in FX options and to the potential detriment of clients and/or other market participants.

Attempts to manipulate the fix

4.51. During its investigation, the Authority identified examples of attempts to manipulate fix rates in collusion with other firms in the manner described in this Notice.

4.52. This type of behaviour was typically facilitated by means of traders at different firms communicating through electronic messaging services (including chat rooms). These traders formed close, tight-knit groups or one-to-one relationships based on mutual benefit and often with a focus on particular currency pairs. Entry into some of these groups or relationships and the chat rooms used by them was closely controlled by the participants. Certain groups described themselves or were described by others using phrases such as "*the players*" or similar. In one group, a chat room participant referred to himself and others in the chat room as "*the 3 musketeers*" and commented "*we all die together*".

4.53. The value of the information exchanged between the traders and the importance of keeping it confidential between recipients was clear to participants.

4.54. The traders involved disclosed and received confidential information to and from traders at other firms regarding the size and direction of their firms' net orders at a forthcoming fix. The disclosures provided these traders with more information than they would otherwise have had about other firms' client order flows and thus the likely direction of the fix.

4.55. These traders used this information to determine their trading strategies and depending on the circumstances to attempt to manipulate the fix in the desired direction. They did this by undertaking a number of actions, typically including one or more of the following (which would depend on the information disclosed and the traders involved):

(1) Traders in a chat room with net orders in the <u>opposite</u> direction to the desired movement at the fix sought before the fix to transact or "*net off*" their orders with third parties outside the chat room, rather than with other traders in the chat room. This maintained the volume of orders in the desired direction held by traders in the chat room and avoided orders being transacted in the opposite direction at the fix. Traders within the market have referred to this process as *"leaving you with the ammo"* or similar.

(2) Traders in a chat room with net orders in the <u>same</u> direction as the desired rate movement at the fix sought before the fix to do one or more of the following:

(a) Net off these orders with third parties outside the chat room, thereby reducing the volume of orders held by third parties that might otherwise be transacted at the fix in the opposite direction. Traders within the market have referred to this process as *"taking out the filth"* or *"clearing the decks"* or similar;

(b) Transfer these orders to a single trader in the chat room, thereby consolidating these orders in the hands of one trader. This potentially increased the likelihood of successfully manipulating the fix rate since that trader could exercise greater control over his trading strategy during the fix than a number of traders acting separately. Traders within the market have referred to this as *"giving you the ammo"* or similar; and/or

(c) Transact with third parties outside the chat room in order to increase the volume of orders held by them in the desired direction. This potentially increased the influence of the trader(s) at the fix by allowing them to control a larger proportion of the overall volume traded at the fix than they would otherwise have and/or to adopt particular trading strategies, such as trading a large volume of a currency pair aggressively. This process was known as *"building"*.

(3) Traders increased the volume traded by them at the fix in the desired direction in excess of the volume necessary to manage the risk associated with the firms' net buy or sell orders at the fix. Traders within the market have referred to this process as *"overbuying"* or *"overselling"*.

4.56. The effect of these actions was to increase the influence that those traders had with regard to the forthcoming fix and therefore the likelihood of them being able to manipulate the rate in the desired direction. The trader(s) concerned then traded in an attempt to move the fix rate in the desired direction.

Example of Barclays' attempts to manipulate the fix

4.57. An example of Barclays' involvement in this behaviour occurred on one day within the Relevant Period when Barclays attempted to manipulate the WMR fix for a particular currency pair. On this day, Barclays had net buy orders for a particular currency pair at the fix which meant that it would benefit if it was able to move the WMR fix rate upwards.[10] The chances of successfully manipulating the fix rate in this manner would be improved if Barclays and other firms adopted trading strategies based on the information they shared with each other about their net orders.

4.58. In the period between 10:06am and 3:52pm on this day, traders at five different firms (including Barclays) inappropriately disclosed to each other through chat rooms details about their net orders in

[10] Barclays would profit if the average rate at which it bought the currency pair in the market was lower than the fix rate at which it sold the currency pair.

respect of the forthcoming 4pm WMR fix in order to determine their trading strategies. The other four firms are referred to in this Final Notice as Firms A, B, C and D. Barclays then participated in the series of actions described below in an attempt to manipulate the fix rate higher.

(1) At 10:06am, Barclays commented in a chat room with Firms A and B that it had a net buy order for the WMR fix for USD150 million.[11] Barclays disclosed that the order was for another Barclays desk which was rebalancing its portfolios at month-end ("*…my rebal guys are paying me for 150…*"). Firm A replied stating "*first of my fixings is a buy but guess long way to go*". Since Barclays and Firm A each needed to buy USD at the fix each would profit to the extent that the fix rate at which it sold USD was higher than the average rate at which it bought USD in the market.

(2) At 10:54am in a one-to-one chat, Firm C asked Barclays what its internal model was suggesting for the month-end fixes later that day. Barclays replied "*weak…sell*" (i.e. sell USD and buy the quote currency), but added that others in the market held the opposite view. Firm C replied "*so fck knows*". Barclays added that it needed to buy USD160 million for the fix (i.e. buy USD and sell the quote currency) for another Barclays desk which was rebalancing its portfolios at month end and that this comprised a relatively significant amount ("*i lose 160…to the rebalancing guys…usually they 4 mil usd…today 160*"). Firm C replied "*mmm…interesting*".

(3) At 12:45pm, Firm A noted to Barclays and Firm B that its order to buy USD at the fix had increased. Barclays responded *"i think gotta chill but so far i 160…if we find thats the way ofg it…then game on".* Firm B commented *"COME ON!!!!!…i liking this…i just askin my guy…if i got anything yet".* Firm A added *"i fancy it today"* and Barclays noted that if they were all buying USD *"i wud fancy it tohahah".*

[11] The first currency of a currency pair is called the "base" currency (in this example it is USD) and the second currency is called the "quote" currency. The rate for a currency pair shows how much of the quote currency is needed to buy one unit of the base currency.

(4) At 1:27pm in a chat room in which Firm D was a participant, Barclays repeated that it needed to buy USD160 million for the forthcoming WMR fix. Barclays noted that while its internal model suggested selling USD, other signals in the market suggested buying USD and that it needed to buy USD160 million in any event.

(5) At 3:28pm, Barclays and Firms A and B discussed the forthcoming WMR fix and the amounts they needed to trade. Barclays stated that it needed to buy USD200 million for the fix, Firm A USD150 million and Firm B USD70 million. Firm B noted that it was also aware of another USD200 million buy fix order. At 3:42pm, Firm B noted that the amount it needed to buy for the fix had increased to USD220 million.

(6) At 3:45pm, Firm B commented to Barclays and Firm A *"boooyyyys…so we alot".* Firm B also disclosed that an inter-dealer broker was looking to trade an additional USD135 million at the WMR fix and asked whether they wanted to trade (*"…wants to do another 135…we want any of it"*).

(7) At 3:46pm, Barclays disclosed that the amount it needed to buy in the market for the fix had increased to USD400 million and encouraged Firm B to trade with the inter-dealer broker (*"u do that").* Firm B subsequently confirmed that it had agreed to the broker trade and as a result it now needed to buy USD360 million (*"ok…360").* This is an example of Firm B *"building"*.

(8) At 3:47pm, Firm A asked "*so how* [much] *we got to buy in total*". Barclays replied "*400 me*" and Firm A said "*200*". Firm B then stated *"if we get this 75 bid i will love u both forever"*.[12]

(9) At 3:51pm, Firm D asked if Barclays was "*the otehr way*" (i.e. buying USD and selling the quote currency in the market) and disclosed to Barclays that it would be selling USD125 million in the market for the 4pm WMR fix. Barclays told Firm D that it needed to buy USD430 million. It stated that it would prefer to

[12] For the purpose of this Notice, when referring to specific foreign exchange rates the Authority has provided only the last two digits of the rate. The Authority considers that Firm B's reference to 75 is a reference to the last two digits for the particular currency pair. At the time, the bid price for this currency pair on the relevant trading platform was 57.

trade this amount at the fix (than match the USD125 million that Firm D wanted to trade), but would match with Firm D if it was unable to trade through an inter-dealer broker (*"wud rather do the 430 but will match with u if u cant offload in broker"*).

(10) At 3:52pm, Firm D indicated that the situation had changed and it needed to buy USD80 million in the market for the fix (*"complet fl;ip now…i lose 80 odd…fkin joke"*). Barclays responded *"cool…suits".*

4.59. Barclays' net buy order associated with its client and other Barclays desk fix orders was USD306 million. In the period leading up to the 4pm WMR fix, Barclays increased (or "built") the volume of USD that it would buy at the fix through a series of trades conducted with other market participants. This trading increased the volume that Barclays would seek to buy for the fix to USD505 million, well above that necessary to manage its risk associated with net client and other Barclays desk orders at the fix. Barclays also encouraged Firm B to "build" and accept the trade of USD135 million with the inter-dealer broker at sub-paragraph (7) above.

4.60. In the period from 3:57:00pm to 3:59:30pm (i.e. immediately prior to the WMR fix window), Barclays bought a total of USD165 million. It accounted for 23% of all purchases in the currency pair on the relevant trading platform during this period. Firms A and B also bought at this time and the aggregated purchases of the three firms accounted for 44% of the total purchases on the platform. The rate for the currency pair steadily increased from 57 to 72 during this time. These early trades were designed to take advantage of the expected upwards movement in the fix rate following the discussions within the chat rooms described above.

4.61. During the 60 second fix window, Barclays bought USD254 million which accounted for more than 18% of all the purchases in the currency pair on the relevant trading platform. Barclays and Firms A and B together accounted for 32% of the purchases in the currency pair on the trading platform during the fix window. During this period, the rate rose from 72 to 80 before finishing at 77. Subsequently WM Reuters published the 4pm fix rate for the currency pair at 77.

4.62. The information disclosed between Barclays and Firms A, B, C and D regarding their order flows was used to determine their trading strategies. The consequent "building" by Barclays and its trading in relation to that increased quantity in advance of and during the fix window were designed to increase the WMR fix rate to Barclays' benefit. Barclays' trading in this example generated a profit of USD286,000.

4.63. Subsequent to the fix Firm D asked Barclays whether its trading had been profitable. Barclays responded indicating it thought it had bought USD200 million at an average rate of 60 and then "bgt the messiest 300 ever at 75-78".

4.64. Once the WMR fix rate had been published for that day, Barclays and Firms A and B discussed their trading. Firm B congratulated the others "boys well done…top work". Barclays added "well I bgt the ugliest 300 there i cud haha". Firm A said "[Firm B] u ask for 75" (i.e. a fix rate of 75) and Barclays added "we delivered…but i dont wanna kiss from u…i just take a beer".

4.65. Later, Firm B stated "[Barclays] thks for the encouragement…with the building…making me do…xtra 135". Barclays responded "suited us all didnt it".

Attempts to trigger client stop loss orders

4.66. During its investigation, the Authority identified instances of Barclays attempting to trigger client stop loss orders. These attempts involved inappropriate disclosures to traders at other firms concerning details of the size, direction and level of client stop loss orders. The traders involved would trade in a manner aimed at manipulating the spot FX rate, such that the stop loss order was triggered.

4.67. An example of Barclays' involvement in this behaviour occurred on one day within the Relevant Period when Barclays attempted to trigger a client stop loss order. On this day, a client had placed a stop loss order to buy GBP77 million at a rate of 95 against another currency.[13] The triggering of this order would result in Barclays selling GBP77 million to the client. Barclays would profit from the

[13] The client placed the stop loss order with Barclays at a rate of 95. Although the client had placed the order at 95, Barclays took the decision not to execute it until the market had traded at a rate of 97. Barclays then executed the client order, i.e. sold GBP 77million to the client, at 96.5.

stop loss order if the average rate at which it bought GBP in the market was lower than the rate at which it sold GBP to the client pursuant to the stop loss order.

4.68. In the period between approximately 10:37 and 11:37, Barclays attempted to trigger the client stop loss order. During this period, Barclays inappropriately disclosed, through chat rooms, the details of the client stop loss order to traders at other firms and provided commentary to them regarding Barclays' attempts to trigger the stop loss order. The other firms are referred to in this example as Firms X, Y, and Z.

(1) At 10:38, Firm X asked Barclays and Firms Y and Z if they had any stop loss orders ("*u got…stops ?*"). Barclays responded that it had a stop loss order for "*80 quid*" at a level of 95. Barclays noted it was "*primed like a coiled cobra…concentrating so hard…[as if] made of wax…[haven't] even blinked*".

(2) At 10:46, the rate increased to 84 and Firm X commented "*…is higher sint it*". Barclays responded "*watch out…will be soon*". The FCA considers this to be a reference to the intention on the part of Barclays to attempt to manipulate the rate to trigger the stop loss order. Firm X responded that it did not believe that Barclays could trigger the stop loss order.

(3) As a first attempt, between approximately 10.46 and 10.49 Barclays purchased GBP66 million at rates between 78 and 95. Barclays then placed an order to buy GBP5 million up to 97, which was above the best offer price prevailing in the market at that time which was 95. This order resulted in Barclays buying GBP2 million at 95 and GBP3 million at 96, before the rate fell back lower.

(4) At 10:49, Firm X commented "*hope that was a o.t*" (i.e. a one-touch order[14]). The FCA considers this to be a reference to the stop loss order at 95 which if it had been a one-touch order would have been executed. Firm Y also stated "*i was just about to say that*". Barclays replied "*errr…long some…here*". The FCA considers this to be a reference to Barclays buying

[14] A one-touch stop loss order is executed if the market trades at the order level. It is only necessary for the market to trade once at that level for the stop loss to be executed.

the currency pair but not being able to trigger the stop loss order by trading at a rate of 97 and thereby selling GBP to the client. Hence it is left with a "long" position.

(5) At 10:51, Firm X told Barclays "*we pick up a seller…guy i like…and just above the print u need*". Barclays responded ("*ok…ta*").

(6) At approximately 10:58, the rate increased to 94. As a second attempt, Barclays placed an order to buy GBP10 million up to 97. Again this was above the best offer price prevailing in the market at that time, which was 95. This order resulted in Barclays buying GBP10 million at 95, following which the rate fell to 85 and Barclays noted "*foooooooooooookkkkk".* By approximately 11:09, the rate had fallen to 78, by which time Barclays had reduced its long position by selling GBP and noted it was "*dead*". The FCA considers this to be a reference to Barclays not being able to trigger the stop loss order and incurring a loss on the long position it had established as a result of the rate falling.

(7) Barclays also confirmed to the other firms that the stop loss order would not be triggered until the rate reached 97 and that it had been unable to achieve this ("…*cudnt get the 97 print…despite trying super hard*"). Barclays noted that there were "*algos galore at 96*". The FCA considers this to be a reference to selling interest from algorithms at a rate of 96 which Barclays perceived had prevented the rate from going higher.

(8) The third and final attempt took place approximately 20 minutes later. At approximately 11:37, transactions occurred in the market at rates 94-96 and the prevailing best offer rate increased to 97. Firm X noted "*attemot number 3*". Barclays then placed an order to buy GBP2 million at up to 97. As a result of this order, Barclays bought GBP1 million at 96 and at 97. The purchase at 97 enabled Barclays to execute the stop loss order. Barclays then confirmed this to the other firms ("*done*").

(9) Barclays' purchase of GBP1 million at 97 was the only trade at

that rate on the trading platform at that time. The currency pair did not trade at this rate again until approximately 16:00.

4.69. Barclays then executed the stop loss order by selling GBP77 million to the client at a rate of 96.5. Barclays' trading was aimed to manipulate the spot rate for the currency pair such that the stop loss was triggered. Barclays' trading in this example generated a loss equivalent to USD63,845[15].

4.70. Following the triggering of the stop loss order, Firm X commented, ironically, that Barclays would have "one happy cleitn !". Barclays responded "he shud be as he wants minimal protection and really cud have been done with 96 print…but we held him in"). The FCA considers "held him in" to be a reference to Barclays not executing the stop loss order for the client when the currency pair traded at 96.

4.71. Although Barclays did not execute the stop loss order at 95 or 96, Barclays traded in a manner that was intended to move the rate to 97. Therefore, as noted by the other firms, instead of holding the client in, Barclays attempted to trigger the stop loss order. At 11:39, Firm Y responded to Barclays: "hahahah…hardly [Barclays]…thats not holding him in…gd work though". Firm X concurred: "helkd him in…with a lot of cursingf…u tried to carve him…and eventually succeeded". Firm Z stated that Barclays' comment about holding the client in "might have to go in the quote book". Barclays responded "hehe".

Inappropriate sharing of confidential information

4.72. The attempts to manipulate the WMR and ECB fixes and trigger client stop loss orders described in this Notice involved inappropriate disclosures of client order flows at fixes and details of client stop loss orders.

4.73. There are also examples of inappropriate sharing of confidential information by spot FX traders and sales staff in Barclays' FX business to other market participants, including disclosures of specific client identities. These examples sometimes involved the use of

[15] Although Barclays executed the stop loss order by selling GBP77 million at a rate of 96.5, it suffered a loss on its trading overall at this time. This was because the average price at which it bought GBP in attempting to trigger the stop loss order (including for example between 10:46 and 10:49) was higher than the average price at which it sold GBP (including both to the client at a rate of 96.5 and in the market at lower rates for example between 11.00 and 11.10 when it reduced some of its "long" position).

informal and occasionally derogatory code words to communicate details of clients' activities without mentioning the clients by name. Disclosing these details gave other market participants notice of the activity of Barclays' clients. This gave those participants more information about those clients' activities than they would otherwise have had. The clients identified were typically significant market participants, such as central banks, large corporates, pension funds or hedge funds, whose trading activity was potentially influential in the market. When these disclosures were made while the client's activity was ongoing, there was significant potential for client detriment.

5. FAILINGS

5.1. The regulatory provisions relevant to this Final Notice are referred to in Annex A.

5.2. For the reasons set out at paragraphs 4.23 to 4.73 in this Notice, Barclays breached Principle 3 by failing to take reasonable care to organise and control its affairs properly and effectively in relation to its FX business.

6. SANCTION

6.1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of the Authority's Decision Procedure and Penalties Manual ("DEPP"). In determining the financial penalty, the Authority has had regard to this guidance.

6.2. Changes to DEPP were introduced on 6 March 2010. Given that Barclays' breach occurred both before and after that date, the Authority has had regard to the provisions of DEPP in force before and after that date.

6.3. The application of the Authority's penalty policy is set out in Annex D to this Notice in relation to:

(1) Barclays' breach of Principle 3 prior to 6 March 2010; and

(2) Barclays' breach of Principle 3 on or after 6 March 2010.

6.4. In determining the financial penalty to be attributed to Barclays' breach prior to and on or after 6 March 2010, the Authority has had particular regard to the following matters as applicable during each period:

(1) The need for credible deterrence;

(2) The nature, seriousness and impact of the breach;

(3) The failure of Barclays to respond adequately during the Relevant Period in its FX business to investigations and enforcement actions against Barclays and other firms relating to LIBOR / EURIBOR and the Gold fixing;

(4) The previous disciplinary record and general compliance history of Barclays; and

(5) Any applicable settlement discount for agreeing to settle at an early stage of the Authority's investigation.

6.5. The Authority imposes impose a total financial penalty of £284,432,000 on Barclays comprising:

(1) A penalty of £54,400,000 relating to Barclays' breach of Principle 3 under the old penalty regime; and

(2) A penalty of £230,032,000 relating to Barclays' breach of Principle 3 under the current penalty regime.

7. PROCEDURAL MATTERS

Decision maker

7.1. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

7.2. This Final Notice is given under, and in accordance with, section 390 of the Act.

Manner of and time for Payment

7.3. The financial penalty must be paid in full by Barclays to the Authority by no later than 3 June 2015, 14 days from the date of the Final Notice.

If the financial penalty is not paid

7.4. If all or any of the financial penalty is outstanding on 4 June 2015, the Authority may recover the outstanding amount as a debt owed by Barclays and due to the Authority.

Publicity

7.5. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

Authority contacts

7.6. For more information concerning this matter generally, contact Lauren Rafter (direct line: 020 7066 8458 / email lauren.rafter@fca.org.uk) or Bob Beauchamp (direct line: 020 7066 5302 / email bob.beauchamp@fca.org.uk) at the Authority.

Therese Chambers

Project Sponsor

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. RELEVANT STATUTORY PROVISIONS

1.1. The Authority's statutory objectives, set out in section 1B(3) of the Act, include the integrity objective.

1.2. Section 206(1) of the Act provides:

"If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act…it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

2. RELEVANT REGULATORY PROVISIONS

Principles for Businesses

2.1. The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the Authority's Handbook. They derive their authority from the Authority's rule-making powers set out in the Act. The relevant Principle and associated Rules are as follows:

(1) Principle 3 provides that a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems; and

(2) PRIN3.2.3R provides that, among other things, Principle 3 will apply with respect to the carrying on of unregulated activities in a prudential context. PRIN3.3.1R provides that this applies with respect to activities wherever they are carried on.

DEPP

2.2. Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

The Enforcement Guide

2.3. The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act.

2.4. Chapter 7 of the Enforcement Guide sets out the Authority’s approach to exercising its power to impose a financial penalty.

ANNEX B

BACKGROUND INFORMATION TO THE SPOT FX MARKET

1. SPOT FX TRANSACTIONS

1.1. A "spot FX" transaction is an agreement between two parties to buy or sell one currency against another currency at an agreed price for settlement on a "spot date" (usually two business days from the trade date).

1.2. Spot FX transactions can be direct (executed between two parties directly), through electronic broking platforms which operate automated order matching systems or other electronic trading systems, or through a voice broker. In practice much of the trading between firms in the spot FX market takes place on electronic broking platforms such as Reuters and EBS.

2. THE 4PM WM REUTERS FIX AND THE 1:15PM ECB FIX

2.1. WM Reuters publishes a series of rates for various currency pairs at different times in the day, including at 4pm UK time in particular. This rate (the "4pm WM Reuters fix") has become a de facto standard for the closing spot rate in those currency pairs. For certain currency pairs, the 4pm WM Reuters fix was calculated in the Relevant Period by reference to trading activity on a particular electronic broking platform during a one minute window (or "fix period") 30 seconds before and 30 seconds after 4pm.[16] The 4pm WM Reuters fix rates are then published to the market shortly thereafter.

2.2. The ECB establishes reference rates for various currency pairs. The rate is "based on the regular daily concertation procedure between central banks within and outside the European System of Central Banks".[17] This procedure normally takes place at 1:15pm UK time and the reference rates are published shortly thereafter. This process is known in FX markets as the ECB fix. The ECB fix is known colloquially as a "flash" fix, that is to say it reflects the rate at that particular moment in time.

2.3. Rates established at these fixes are used across the UK and global financial markets by various market participants, including banks,

[16] The methodology used by WM Reuters to calculate its rates is set out in the attached link: http://www.wmcompany.com/pdfs/WMReutersMethodology.pdf

[17] The methodology used by ECB to establish its rates is described in the attached link: http://sdw.ecb.europa.eu/browse.do?node=2018779

asset managers, pension funds and corporations. These rates are a key reference point for valuing different currencies. They are used in the valuation of foreign currency denominated assets and liabilities, the valuation and performance of investment portfolios, the compilation of equity and bond indices and in contracts of different kinds, including the settlement of financial derivatives.

3. FIX ORDERS

3.1. A firm may receive and accept multiple client orders to buy or sell a particular currency pair for a particular fix on any given day. The firm agrees to transact with the client at the forthcoming fix rate. In practice, opposing client orders are effectively "netted" out by the firm insofar as possible[18] and traders at the firm will be responsible for managing any residual risk associated with the client orders. They may seek to manage this risk by going into the market and buying or selling an equivalent amount of the relevant currency to match the residual risk.

3.2. At its most straightforward, for example, on any given day a firm might receive client orders to buy EUR/USD[19] 500 million at the fix rate and client orders to sell EUR/USD 300 million at the fix rate. In this example, the firm would agree to transact all these orders at the fix rate and would net out the opposing orders for EUR/USD 300 million. The traders at the firm may buy EUR/USD 200 million in the market to manage the residual risk associated with the client orders. This net amount is referred to in this Notice as the firm's "net client orders" at the fix.

3.3. A firm does not charge commission on its trading or act as an agent, but transacts with the client as a principal. A firm in this situation is exposed to rate movements at the fix. A firm can make a profit or loss from clients' fix orders in the following ways:

(1) A firm with net client orders to <u>buy</u> a currency for a forthcoming fix will make a profit if the fix rate (i.e. the rate at

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[18] This can be done by "netting off" opposing orders in the same currency pairs or by splitting the order between its constituent currencies and "netting off" against orders relating to other currency pairs.

[19] The first currency of a currency pair (e.g. EUR in the above example) is called the "base" currency. The second currency is called the "quote" currency (e.g. USD in the above example). An order to buy a currency pair is an order to buy the base currency (e.g. EUR) using the quote currency (e.g. USD) as consideration for the transaction. An order to sell a currency pair is an order to sell the base currency and to receive the quote currency.

which it has agreed to sell a quantity of the currency pair to its client) is higher than the average rate at which the firm buys the same quantity of that currency pair in the market. Conversely, the firm will make a loss if the fix rate is lower than the average rate at which the firm buys the same quantity of that currency pair in the market.

(2) A firm with net client orders to sell a currency for a forthcoming fix will make a profit if the fix rate (i.e. the rate at which it has agreed to buy a quantity of the currency pair from its client) is lower than the average rate at which the firm sells the same quantity of that currency pair in the market. A loss will be made by the firm if the fix rate is higher than the average rate at which the firm sells the same quantity of that currency in the market.

3.4. A firm legitimately managing the risk arising from its net client orders at the fix rate may make a profit or a loss from its associated trading in the market. Such trading can potentially influence the fix rate. For example, a firm buying a large volume of currency in the market just before or during the fix may cause the fix rate to move higher. This gives rise to a potential conflict of interest between a firm and its clients.

3.5. It also creates a potential incentive for a firm to seek to attempt to manipulate the fix rate in the direction that will result in a profit for the firm. For example, a firm with net client buy orders for the forthcoming fix can make a profit if it trades in a way that moves the fix rate higher such that the rate at which it has agreed to sell a quantity of the currency pair to its client is higher than the average rate at which it buys that quantity of the currency pair in the market. Similarly, a firm can profit from net client sell orders if it moves the fix rate lower such that the rate at which it has agreed to buy a quantity of the currency pair from its client is lower than the average rate at which it sells that quantity of the currency pair in the market.

4. STOP LOSS ORDERS

4.1. Clients will place stop loss orders with a firm to help manage their risk arising from movements in the spot FX market. For example, in circumstances where a client has bought EUR/USD he may place a stop loss order with a firm to sell EUR/USD at or around a specified rate below that of his original purchase. By accepting the order, the firm agrees to transact with the client at or around a specified rate if the currency trades at that rate in the market. No binding agreement is made until the agreed rate has been "*triggered*" (i.e. when the currency trades at that rate in the market).

4.2. A stop loss order has the effect of managing the client's risk and limiting the crystallised loss associated with a currency position taken by him should the market rate move against him. The size of the stop loss order and the rate at which it is placed will depend on the risk appetite of the client. Spot FX traders at the firm will typically be responsible for managing the order for the client and managing the risk associated with the order from the firm's perspective.

4.3. A firm can potentially make a profit or loss from transacting a client's stop loss order in a similar way to that described above:

(1) A client's stop loss order to <u>buy</u> a currency pair is triggered by the rate moving above a certain specified level. A firm will make a profit (loss) if it purchases a quantity of the currency pair in the market at a lower (higher) average rate than that at which it subsequently sells that quantity of the currency pair to its client when the stop loss order is executed.

(2) A client's stop loss order to <u>sell</u> a currency is triggered by the rate moving below a certain specified level. A firm will make a profit (loss) if it sells a quantity of the currency pair in the market at a higher (lower) average rate than that at which it subsequently buys that quantity of the currency pair from its client when the stop loss order is executed.

4.4. Similar to fix orders, a firm legitimately managing the risk arising from a client's stop loss order may make a profit or loss from the trading associated with its risk management. Such a scenario can also, however, provide a potential incentive for a firm to attempt to manipulate the rate for a currency pair prevailing in the market to, or through, a level where the stop loss order is triggered. For example, a firm will profit from a client's stop loss order to buy a currency pair if the firm purchases a quantity of that currency pair and then trades in a manner that moves the prevailing rate for a currency pair at or above the level of the stop loss. This would result in the rate at which the firm sells the currency pair to the client as a result of the execution of the stop loss being higher than the average rate at which it has purchased that quantity of the currency pair in the market.

5. OTC FX OPTIONS

5.1. An FX option contract traded over the counter ("OTC")[20] grants the buyer the right, but not the obligation, to enter into a spot transaction to buy (a "call" option) or sell (a "put" option) a currency pair at an agreed rate (the "strike rate") or receive a fixed payment on or before an agreed date (the "expiry" or "settlement" date). The buyer pays the seller an amount called the premium in exchange for this right or fixed payment. This premium is the price of the option. According to the BIS Survey, the daily average turnover of OTC FX options in April 2013 was approximately USD337 billion.

5.2. OTC FX options allow clients of a firm to speculate on forthcoming movements in FX rates and/or manage the risk associated with such movements. Traders at the firm will typically be responsible for managing the risk associated with the option from the firm's perspective. A firm legitimately managing the risk arising from the trade with the client may make a profit or loss from its associated trading in the market.

5.3. Certain types of OTC FX options may involve "discontinuous pay-outs", that is to say the pay-out profile associated with the option changes dramatically if certain triggers are satisfied (e.g. a currency pair trades at a particular rate).

5.4. An example of such an option is a "barrier" option. This type of option either expires worthless (the seller benefitting from the premium paid by the buyer) or activates and results in a fixed payment (from the seller to the buyer) or the right (for the buyer) to another option if a particular rate or barrier in an underlying currency pair trades in the market. Barrier options can be in the form of either (i) a "knock-in" option where the right to receive a fixed payment is activated only when the currency pair trades at a certain agreed level; or (ii) a

[20] "OTC" refers to trading that does not take place on a formal exchange (e.g. LIFFE).

"knock out" option where the right to receive a fixed payment is cancelled when the currency pair trades at a certain agreed level.

5.5. A client who anticipates that the EUR/USD spot rate may stay within a certain range (for example if it is currently trading at 1.06 and the client anticipates that it will stay within a range of 1.01 and 1.11 for a defined period) may buy a "double no touch" barrier option from a firm with knock-out rates at 1.01 and 1.11 and a fixed payout as long as the knock-out rates are not touched for the duration of the option. If the EUR/USD falls and trades at 1.01 or increases and trades at 1.11 the option is cancelled. If EUR/USD remains within the range for the defined period the client receives the fixed payout.

5.6. Traders at the firm will be responsible for managing the risk associated with the option from the firm's perspective. For example, the firm may wish to hedge against the fixed payout by trading EUR/USD in the market. A firm legitimately managing the risk arising from the trade with the client may make a profit or loss from its associated trading in the market.

5.7. However, a firm trading a large volume of a currency pair in the market may cause the spot FX rate to move. Such a scenario can provide a potential incentive for the firm to attempt to manipulate the spot rate. In the above example, if the spot rate is approaching the upper knock-out rate of 1.11 the firm may profit from the trade with the client if the spot FX rate reaches the rate of 1.11 and the option is cancelled. (If the spot rate remains at a level just below 1.11 until expiry, the client will receive the fixed payout at expiry of the option). The firm therefore may attempt to manipulate the spot rate and trade in a way that ensures that the market trades at the knock-out rate.

6. ELECTRONIC MESSAGING THROUGH CHAT ROOMS OR SIMILAR

6.1. The use of electronic messaging was common practice by participants in the spot FX market during the Relevant Period.

6.2. A "persistent" chat room allows participants to have ongoing discussions with other participants from different firms and in different time zones for extended timeframes. Participants can communicate through electronic messaging over a period of multiple days, weeks or months. There can be multiple participants in a particular persistent chat and once invited an individual will be able to view a continuous record of the entire discussion thread and participate from then on.

ANNEX C

RELEVANT CODES OF CONDUCT

1. On 22 February 2001, a number of leading intermediaries, including Barclays, issued a statement setting out a new set of *"good practice guidelines"* in relation to foreign exchange trading (the "2001 statement"). The guidelines specified that:

   "*The handling of customer orders requires standards that strive for best execution for the customer in accordance with such orders subject to market conditions. In particular, caution should be taken so that customers' interests are not exploited when financial intermediaries trade for their own accounts… Manipulative practices by banks with each other or with clients constitute unacceptable trading behaviour*."[21]

   The 2001 statement continues, *"Foreign exchange trading management should prohibit the deliberate exploitation of electronic dealing systems to generate artificial price behaviour."*[22]

2. The NIPS Code provided the following relevant guidance:

2.1. In relation to conflicts of interest, *"All firms should identify any potential or actual conflicts of interest that might arise when undertaking wholesale market transactions, and take measures either to eliminate these conflicts or control them so as to ensure the fair treatment of counterparties."*[23]

2.2. In relation to maintaining the confidentiality of information it states that *"Confidentiality is essential for the preservation of a reputable and efficient market place. Principals and brokers share equal responsibility for maintaining confidentiality"*.[24]

2.3. It continues *"Principals or brokers should not, without explicit permission, disclose or discuss or apply pressure on others to disclose or discuss, any information relating to specific deals which*

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[21] Annex 2 to the NIPS Code, November 2011. Original statement issued 22 February 2001 by 16 leading intermediaries in the FX market. Also Annex 2 to the NIPS Code December 2007 and NIPS Code April 2009.
[22] Ibid.
[23] Paragraph 5, Part II, NIPS Code, December 2007; and paragraph 6, Chapter II, NIPS Code, April 2009 and November 2011.
[24] Paragraph 16, Part III, NIPS Code, December 2007; and paragraph 15, Chapter III, NIPS Code, April 2009 and November 2011.

have been transacted, or are in the process of being arranged, except to or with the parties directly involved (and, if necessary, their advisers) or where this is required by law or to comply with the requirements of a supervisory body. All relevant personnel should be made aware of, and observe, this fundamental principle."[25]

3. The ACI Model Code provides the following relevant guidance:

3.1. In relation to confidentiality it provides that firms must have clearly documented policies and procedures in place and strong systems and controls to manage confidential information within the dealing environment and other areas of the firm which may obtain such information. It also stipulates that any breaches in relation to confidentiality should be investigated immediately according to a properly documented procedure.[26]

3.2. In relation to confidential information it provides that *"Dealers and sales staff should not, with intent or through negligence, profit or seek to profit from confidential information, nor assist anyone with such information to make a profit for their firm or clients"*. It goes on to clarify that dealers should refrain from trading against confidential information and never reveal such information outside their firms and that employees have a duty to familiarise themselves with the requirements of the relevant legislation and regulations governing insider dealing and market abuse in their jurisdiction.[27]

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[25] Paragraph 16, Part III, NIPS Code, December 2007; and paragraph 15, Chapter III, NIPS Code, April 2009 and November 2011.

[26] Paragraphs 9 and 6, Chapter II, ACI Model Code, April 2009; paragraph 10, ACI Model Code, September 2012; paragraph 10.1 ACI Model Code, January 2013.

[27] Paragraph 9, Chapter II, ACI Model Code, April 2009; paragraph 10(b), ACI Model Code, September 2012; and paragraph 10.2, ACI Model Code, January 2013.

ANNEX D

PENALTY ANALYSIS

1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of the Authority's Decision Procedure and Penalties Manual ("DEPP"). In determining the financial penalty, the Authority has had regard to this guidance.

2. Changes to DEPP were introduced on 6 March 2010. Given that Barclays' breach occurred both before and after that date, the Authority has had regard to the provisions of DEPP in force before and after that date.

3. The application of the Authority's penalty policy is set out below in relation to:

3.1. Barclays' breach of Principle 3 prior to 6 March 2010; and

3.2. Barclays' breach of Principle 3 on or after 6 March 2010.

4. BREACH OF PRINCIPLE 3 PRIOR TO 6 MARCH 2010

4.1. In determining the financial penalty to be attributed to Barclays' breach prior to 6 March 2010, the Authority has had particular regard to the following:

Deterrence – DEPP 6.5.2G(1)

4.2. The principal purpose of a financial penalty is to promote high standards of regulatory conduct by deterring firms who have breached regulatory requirements from committing further contraventions, helping to deter other firms from committing contraventions and demonstrating generally to firms the benefits of compliant behaviour. The Authority considers that the need for deterrence means that a very significant financial penalty against Barclays is appropriate.

The nature, seriousness and impact of the breach – DEPP 6.5.2G(2)

4.3. Barclays' breach was extremely serious. The failings in Barclays' procedures, systems and controls in its FX business occurred over a period of more than two years prior to 6 March 2010. They allowed the behaviours described in this Notice to occur during this period, including inappropriate disclosures of confidential information and attempts to manipulate the 4pm WM Reuters fix and the 1:15pm ECB fix and to trigger client stop loss orders. Barclays' breach undermines confidence not only in the FX market, but also in the wider UK financial system.

The size and financial resources of the Firm – DEPP 6.5.2G(5)

4.4. Barclays is one of the biggest, most sophisticated and well resourced financial services institutions in the UK. Serious breaches committed by such a firm warrant a significant penalty.

Disciplinary record and compliance history – DEPP 6.5.2G(9)

4.5. On 19 August 2009, Barclays and one of its affiliates were fined £2.45 million for breaches of SUP 17 of the Authority's Handbook and Principles 2 and 3 regarding its submission of transaction reports.

Other action taken by the Authority – DEPP 6.5.2G(10)

4.6. In determining whether and what financial penalty to impose on Barclays in respect of its breach of Principle 3, the Authority has taken into account action taken by the Authority in relation to comparable breaches.

4.7. The Authority considers that Barclays' breach of Principle 3 in the period prior to 6 March 2010 merits a significant financial penalty of £68,000,000 before settlement discount.

4.8. Barclays agreed to settle at an early stage of the Authority's investigation. Barclays therefore qualified for a 20% (Stage 2) discount under the Authority's executive settlement procedures. The financial penalty for Barclays' breach of Principle 3 in the period prior to 6 March 2010 is therefore £54,400,000.

5. BREACH OF PRINCIPLE 3 ON OR AFTER 6 MARCH 2010

5.1. In respect of any breach occurring on or after 6 March 2010, the Authority applies a five step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five step framework that applies in respect of financial penalties imposed on firms.

Step 1: Disgorgement

5.2. At Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this (DEPP 6.5A.1G). The Authority considers that it is not practicable to quantify the financial benefit that Barclays may have derived directly from its breach.

5.3. Step 1 is therefore £0.

Step 2: The seriousness of the breach

5.4. At Step 2 the Authority determines a figure that reflects the seriousness of the breach (DEPP 6.5A.2G). Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area.

5.5. The Authority considers revenue to be an indicator of the harm or potential harm caused by the breach. The Authority has therefore determined a figure based on a percentage of Barclays' relevant revenue. The Authority considers that the relevant revenue for the period from 6 March 2010 to 15 October 2013 is £602,000,000.

5.6. In deciding on the percentage of the relevant revenue that forms the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

Level 1 – 0%

Level 2 – 5%

Level 3 – 10%

Level 4 – 15%

Level 5 – 20%

5.7. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. The Authority considers that the following factors are relevant:

Impact of the breach

(1) The breach potentially had a very serious and adverse effect on markets, having regard to whether the orderliness of or confidence in the markets in question had been damaged or put at risk. This is due to the fundamental importance of spot FX benchmarks and intra-day rates for currencies, their widespread use by market participants and the consequent negative impact on confidence in the FX market and the wider UK financial system arising from misconduct in relation to them;

Nature of the breach

(2) There were serious and systemic weaknesses in Barclays' procedures, systems and controls in its FX business over a number of years;

(3) Barclays failed adequately to address obvious risks in that business in relation to conflicts of interest, confidentiality and trading conduct. These risks were clearly identified in industry codes published before and during the Relevant Period;

(4) Barclays' failings allowed improper behaviours to occur in its FX business as described in this Notice. These behaviours were egregious and at times collusive in nature;

(5) There was a potential detriment to clients and to other market participants arising from misconduct in the FX market;

(6) Certain of those responsible for managing front office matters at Barclays were aware of and/or at times involved in some of the behaviours described in this Notice in the period on or after 6 March 2010; and

Whether the breach was deliberate or reckless

(7) The Authority has not found that Barclays acted deliberately or recklessly in the context of the Principle 3 breach.

5.8. Taking all of these factors into account, the Authority considers the seriousness of Barclays' Principle 3 breach on or after 6 March 2010 to be level 5 and so the Step 2 figure is 20% of £602,000,000.

5.9. Step 2 is therefore £120,400,000.

Step 3: Mitigating and aggravating factors

5.10. At Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2 to take into account factors which aggravate or mitigate the breach (DEPP 6.5A.3G).

5.11. The Authority considers that the following factors aggravate the breach:

(1) The firm's previous disciplinary record and general compliance history, including:

(a) On 23 September 2014, Barclays was fined £37.7 million for breaches of Principles 3 and 10 for failure to protect properly clients' custody assets;

(b) On 23 May 2014, Barclays was fined just over £26 million for breaches of Principles 3 and 8 for misconduct in relation to the Gold fixing;

(c) On 27 June 2012, Barclays was fined £59.5 million for breaches of Principles 2, 3 and 5 for misconduct relating to LIBOR and EURIBOR benchmarks;

(d) On 24 January 2011, Barclays Capital Securities Limited (a separate legal entity but one within the same division of the investment bank) was fined £1.1 million in relation to a breach of Principle 10; and

(e) On 14 January 2011, Barclays was fined £7.7 million for breaches of Principle 9 in relation to the sale of Aviva's Global Balanced Income Fund and Global Cautious Income Fund.

(2) Barclays' failure to respond adequately, during the Relevant Period, in its FX business to investigations and enforcement actions against Barclays and other firms relating to misconduct around LIBOR / EURIBOR and the Gold fixing; and

(3) Despite the fact that certain of those responsible for managing front office matters were aware of and/or at times involved in some of the behaviours described in this Notice, they did not take steps to stop those behaviours.

5.12. Having taken into account these aggravating factors, the Authority considers that the Step 2 figure should be increased by 35%.

5.13. Step 3 is therefore £162,540,000.

Step 4: Adjustment for deterrence

5.14. If the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.

5.15. The Authority does not consider that the Step 3 figure of £162,540,000 represents a sufficient deterrent in the circumstances of this case.

5.16. The failings described in this Notice meant that Barclays' FX business had the opportunity to act in the firm's own interests without proper regard for the interests of its clients, other market participants or the financial markets as a whole. Barclays' failure to control properly the activities of that business in a systemically important market such as the FX market undermines confidence in the UK financial system and puts its integrity at risk. The Authority regards these as matters of the utmost importance when considering the need for credible deterrence.

5.17. Barclays' response to misconduct relating to LIBOR / EURIBOR and the Gold fixing failed adequately to address in its FX business the root causes that gave rise to failings described in this Notice. This indicates that industry standards have not sufficiently improved in relation to identifying, assessing and managing appropriately the risks that firms pose to markets in which they operate.

5.18. In November 2014, the Authority imposed penalties on five firms for significant failings in their G10 spot FX voice trading businesses in London. These penalties ranged from £216,363,000 to £233,814,000 and included an uplift of £225,000,000 at Step 4.

5.19. The failings identified in this Notice extend beyond Barclays' G10 spot FX voice trading business to its wider FX voice trading business in London, covering in addition its EM spot FX, G10 and EM FX options businesses, and associated G10 and EM sales operations. In light of the seriousness of the failings identified in this Notice and the expanded scope of the Authority's findings against Barclays beyond G10 spot FX, the Authority considers that in order to achieve credible deterrence the Step 3 figure should be increased by the sum of £125,000,000.

5.20. Step 4 is therefore £287,540,000.

Step 5: Settlement discount

5.21. If the Authority and Barclays, on whom a penalty is to be imposed, agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and Barclays reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

5.22. The Authority and Barclays reached agreement at Stage 2 and so a 20% discount applies to the Step 4 figure.

5.23. Step 5 is therefore £230,032,000.

6. CONCLUSION

6.1. The Authority therefore imposes a total financial penalty of £284,432,000 on Barclays comprising:

(1) A penalty of £54,400,000 relating to Barclays' breach of Principle 3 under the old penalty regime; and

(2) A penalty of £230,032,000 relating to Barclays' breach of Principle 3 under the current penalty regime.