Barclays proves nothing has changed – and this wi…

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The FT notes:

"Curious" and "largely cosmetic" were two of the opinions offered by analysts on Thursday as they sought to explain **Barclays**' decision to sell more than $12.3bn (£7.5bn) of risky credit assets to a new company.

Barclays loaned the new company, Protium, the money to buy the assets, thus replacing the volatility caused by owning risky assets with regular cash flows from interest payments.

It says:

The crucial question is whether the merits of protecting against further problems with the assets outweigh the amount of upside being handed to the new fund.

The decision to shift $8.2bn of structured credit securities insured by monolines, as well as $2.3bn of residential mortgage-backed bonds and $1.8bn of unpackaged mortgages, will certainly help Barclays to reduce risks.

Well that's one opinion. It's also very hard to justify since Barclays is providing funding on commercial terms in the form of a $12.6bn 10-year loan that will net it $3.9bn in interest over the next decade. Candidly, if there's a monoline default and two thirds of the assets of this new company, which is based in Cayman relate to monoline then the debt will go bad. Where the heck is the protection in that?

So let's look at this another way. First, welcome back to offshore. $12 bn of assets move to Cayman in a supposedly arm's length deal. What's arm's length when Barclays provides about 96% of the funding? Sorry: I don't buy that as an arm's length deal. I call that control — but the purpose is to take this stuff off balance sheet, I know.

Second, welcome to â€šÃ„Ã²tax free'. Oh, jolly fun. Except I'll guarantee that most of this will really be managed from London and New York — the fund manager is based in the US. Back to the old governance charades then.

Third, welcome to â€šÃ„Ã²no stamp duty zone’ in future — how convenient.

Fourth, I notice ex Barclays Capital people are running this — what a great way to give them bonuses off balance sheet. It does not seem they’re providing much at all of the capital but will be getting £40 million a year in fees.

Fifth, just to show how odd this deal is:

Barclays has derecognised the assets on its balance sheet for accounting purposes but has kept them on its balance sheet for regulatory reasons.

There are words to describe that. Transparent accounting is not anywhere near the ones that are appropriate. But the FT says:

Barclays’ move could be the first in a series of these types of deals as investors seek to make a return on these toxic assets — particularly if the banks involved are prepared to offer juicy returns.

So the world of offshore financial abuse continues. Have we learned nothing? Is it really the case that opaque offshore risk is, once again, being lined up to bring down our banks? I think you know my answer to that.

I have a horrible feeling in the pit of my stomach: this will end in tears.