

Nick Leeson: "The Rogue Trader"

Facts

Loss
\$1.3 bn

Parties concerned

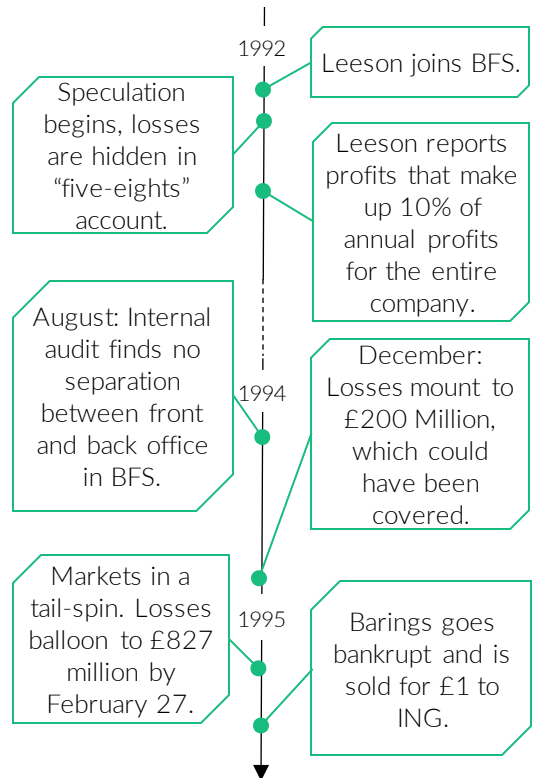


“ Until the collapse, Barings' management in London believed the trading conducted by BFS to be essentially risk free and very profitable.
– Bank of England, 1995 report on the collapse ”

Story

- Barings Bank, the oldest merchant bank in the United Kingdom, was founded in 1762.
- Beginning in the 1980's, Barings expanded into the new activities such as securities trading.
- Nick Leeson started working for Barings in London in the back office and moved to Barings Futures Singapore (BFS) in 1992.
- BFS was allowed to trade on behalf of clients and conducted proprietary arbitrage trading in Japanese markets.
- Leeson became General Manager of BFS, as well as Head Trader and de facto Head of Back Office. This created a serious conflict of interest. Furthermore, Leeson's reporting obligations were unclear, and he essentially had free rein.
- Leeson began speculating, which was much riskier than arbitrage and often led to losses, which were hidden in error account '88888'. Leeson only reported profits.
- Leeson continued to make riskier bets to recoup losses by investing in a variety of positions.
- However, markets took a downturn after the Kobe Earthquake. The bank accumulated huge losses over a two-week period, from which they could no longer recover.
- Leeson fled to London but was extradited back and was sentenced to 6 years imprisonment, serving 4 and half years.
- Barings was sold to ING for £1, ending its 233-year existence.

Timeline



Instruments/positions: Futures/derivatives. Long positions in Nikkei futures, short positions in Japanese Government Bond futures, 'short volatility' position in Nikkei exchange traded options

Facts

Transparency of actual position	<input type="checkbox"/>	Criminal action involved	<input checked="" type="checkbox"/>
Transparency of risk	<input type="checkbox"/>	Risk Management Issue	<input checked="" type="checkbox"/>
Transparency of P&L	<input type="checkbox"/>	Compliance Issue	<input checked="" type="checkbox"/>

Takeaways

- Nick Leeson brought down Barings, but internal structures in Barings made the bank vulnerable to his fraud.
- Too little, too late: Steps were taken to introduce proper risk management and internal control, but they were insufficient and implemented too slowly.

