

The Rogue Trader speaks in Sydney

by Melanie Timbrell

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Banks must tighten risk control mechanisms and challenge irregularities, according to Nick Leeson, the rogue trader whose unauthorised trades resulted in £862 million losses and brought down Barings Bank.

Speaking at a Symantec luncheon in Sydney yesterday, detailing the chain of events which led him to flee Singapore in February 1995, Leeson focused on the gaps in risk management and auditing procedures which allowed his rogue trading to continue unchecked.

The lesson for organisations should be the empowerment of the risk oversight function, which too often is “only paid lip service,” said Leeson. “Most financial scandals have a common denominator of poor systems, poor controls and poor people in charge of those systems and controls.”

For the three years Leeson operated an illegal position in Singapore, a paper trail of the illegal ‘five-eights account’ existed, along with rumours and concerns in the market over the volume of Leeson’s derivatives trading. The one organisation which apparently took no notice of the rumours was the Bank itself.

“The information was always there if the Bank or anyone who worked in the organisation at the time had chosen to use it,” said Leeson, pointing to a lack of understanding within the Bank’s management over the nature of trades. This meant any questions which did arise came straight back to Leeson himself, ensuring they could never gain traction. “Throughout those three years no one did that very simple check.”

“Knowledge is nothing without understanding,” said Leeson, identifying a common problem with the Bank’s external audit firm, which assigned auditors who had no prior experience of conducting a futures and options audit. This enabled Leeson to direct them away from the ‘five-eights’ account when they came to him with queries. Leeson noted the ‘five-eights’ account was uncovered in the audit, although the only detail identified was the fact some trades were missing a time-stamp.

“If you don’t understand the business you are transacting, it’s impossible to challenge what’s going on,” said Leeson. He notes the lack of understanding of the trading business existed at both Barings Bank and the Singapore International Monetary Exchange (Simex), the market on which Leeson was operating.

“As much as the collapse of the Bank highlights my own negligence and incompetence at the time, it also highlights some of theirs,” he observed. Leeson believes corporate governance and risk management failing to keep up with innovation in trading is where real danger lies.

Described as the 'original rogue trader', Leeson has by no means been the last, referring in his talk to more recent examples of traders at Societe Generale and National Australia Bank to highlight the need for industry action, and an understanding and awareness of risk and control functions for all businesses.