PRMIA I Financial Instruments

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Contents

PRMIA IV - Case Studies Kevin O'Brien

1 BARINGS BANK

1.1 Learning Outcomes

- Describe how the massive losses were incurred
- Describe why the true position was not noticed earlier
- Describe the role of the External Auditors
- Describe the supervision done by the Bank of England
- Describe the role of The Securities And Futures Authority (SFA, now knownas the Financial Services Authority, the FSA)
- Describe the Lessons learnt from the Barings Case Study
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described

2 BANKERS TRUST

This case study focuses on the losses and loss of reputation at Bankers Trust (BT) in 1994 after it was sued by four of its major clients who asserted that Bankers Trust had misled them with respect to the riskiness and value of derivatives that they had purchased from the bank.

2.1 Learning Outcomes

The candidate should be able to:

- Describe the Timeline of Events
- Describe the lessons learnt
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described

2.2 Gibson Greetings

Gibson Greetings was a greeting card and wrapping paper manufacturing company. It was conservative company which was nave to derivatives. It did not want to incur loss more than $3 million through derivative speculations. Over eight months in derivative contracts with Bankers Trust it earned $260000. This profit made Gibson comfortable about derivatives. After that the company entered into around 29 linked derivatives to earn more profit and paid to Bankers Trust around $13 million.

These complex derivatives had fancy names like ***ratio swap, periodic floor, spread lock 1 and 2***, Treasury-linked swap, knockout call option, Libor-linked payout, time swap, and wedding band 3 and 6.

As many of the contracts contained options, they incorporated leverage (having fixed cost like loan). But after some time Gibson started losing money which was much more than the maximum loss amount specified by Gibson. Its losses increased dramatically in response to small changes in interest rates due to high leverage. When Gibson suffered from $17.5 million loss, Bankers Trust made it enter into another contract that could lead to reduced loss of $3 million or increased loss of $27.5 million. This bet also failed and increased the loss to $20.7 million After Gibson Greetings lost huge amount, it sued Bankers Trust.

2.3 Summary

- BTs reputation took a pounding after the bank was sued by several customers alleging various forms of fraud and racketeering with respect to derivatives transactions they had entered into with the bank. Several of these suits have since been settled both in and out of court, costing the company millions of dollars in settlement and possibly much more in damage to its reputation.

- The root cause appears to have been that BTs clients felt that BT had unfairly exploited their comparative lack of sophistication in handling these sophisticated derivative products.

- This appears to be an example of poor stakeholder management. In focusing on increasing profits, Bankers Trust didnt pay adequate attention to the fact that its clients were vital to its business. Even if it did nothing dishonest, it failed to serve its clients in terms of making them feel informed and at ease with their deals.

3 NATIONAL AUSTRALIA BANK FX OPTIONS

This case study consists of the Investigation into foreign exchange losses at the National Australia Bank, 12 March 2004.

The candidate should be able to:

- Describe the sequence of events and trading activities that led to the losses
- Describe the analysis of the losses and how they occurred, with an initial focus on foreign currency option transactions entered into on or after 1 October 2003
- Describe the key policies, procedures, systems and control failures within the foreign currency options trading business responsible for the losses.
- Describe the Impacts on customers and third parties
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described

4 BANKGESELLSCHAFT BERLIN

This case study focuses on the losses incurred at Bankgesellschaft Berlin, one of Germanys 10 largest banks in summer 2001.

4.1 Learning Outcomes

The candidate should be able to:

- Describe the Timeline of Events
- Describe how property-based funds carried unforeseen and uncovered risks
- Describe the lessons learnt
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described.

4.2 Summary

- BgB sets up property-backed funds that are a lot riskier for the bank than for its retail investors. It also approves a series of risky loans to property developers and becomes involved with many of Berlins landmark regeneration projects.
- The property bubble bursts in Berlin and surrounding regions leading to massive losses and liabilities in the banks property-linked portfolios.
- Early in summer 2001, the Berlin senate was informed that Bankgesellschaft Berlin, one of Germanys 10 largest banks, needed an emergency transfusion of E2 billion in new capital.

Connections between Politicians and Business

Rarely has the close intertwining of business and politics, with the accompanying unrestrained enrichment of party officials and their political favourites, become so clearly visible. As in a kaleidoscope, this banking crisis reveals the corruption and nepotism in all colours of the political spectrum.

Formation

The BGB was formed in 1994 by unifying several Berlin credit institutes formerly controlled by the Berlin state government. At that time, the CDU/SPD coalition in the Senate boasted that the BGB, floated on the stock market, was unique in German banking, and not only served to strengthen Berlin as a banking centre, but also was aimed at carrying through a trend-setting structural policy in the city and its environs.

Ownership

The largest single BGB shareholder was the Berlin state government (56.6 percent), 20 percent was held by the north German state bank NordLB, 7.5 percent belonged to the Gothaer insurance company (Parion) and 18.4 percent of the shares were in smaller holdings.

Company Profile

With a balance sheet of almost 405 billion marks in the first quarter of the current year, the BGB was the largest financial company in Germanys capital city. The BGB owned a series of finance houses, including the Landesbank Berlin, the BerlinHyp building society as well as a number of smaller banks like the Weber Bank and the Allbank. The various BGB enterprises employed 16,000 workers, but 3,000 were be dismissed by the end of 2001 due to the crisis. The BGB operated about 2.5 million private customer accounts and about 800,000 business accounts.

People

The boss of the BerlinHyp was none other than one Klaus Landowsky, who was also the leader of the CDU parliamentary group in the Senate. The banker Landowsky agreed a 600 million mark line of credit, without the usual collateral and checks, to the two managing directors of the Aubis real estate company, whom the politician Landowsky knew all too well. They were not just businessmen but old CDU colleagues, who had sat alongside him for many years in parliament . From 1984 to 1990, Klaus-Hermann Winhold belonged to the CDUs Berlin state leadership and his Aubis business partner Christian Neuling represented the Berlin CDU in the Bundestag (federal parliament). Neuling is not completely unknown to the public prosecutors office. He was investigated in 1985 on suspicion of selling waste oil as fuel oil. But Berlin public prosecutors office soon dropped all its proceedings against the prominent CDU politician.

In 1991, Neuling sat on the supervisory board of the Treuhandestablished to oversee the sale of all East Germanys former state-owned assetsand was chairman of the Bundestags Treuhand subcommittee when he was suspected of committing fraud. His company received properties and credits from the Treuhand on extremely favourable terms. Once again, Neuling denied everything, but resigned less than two weeks later as chairman of the parliamentary Treuhand subcommittee; and the investigation was shelved.

Aubis

At the beginning of 2001, the Federal Banking Supervisory Office conducted a special audit of the BGB. As a result, it came to light that in 1995 Klaus Landowsky had personally received a CDU party donation of 40,000 marks in his executive office at the BerlinHyp and had not recorded the transaction correctly. The donors were Winhold and Neuling from the Aubis real estate company, who shortly thereafter were granted the 600 million mark credit by the BerlinHyp. According to the auditors comments published so far, unprofessional and possibly illegal circumstances prevailed.

When the Aubis bankruptcy loomed in 1999, the bank negotiated a financial disencumbrance in order to prevent the bankruptcy of the real estate company. The bank took over the rights to use the predominantly empty properties, in return forsaking repayment of the credit. In the context of this arrangement, the repayment of private loans to the Aubis managing directors and CDU politicians Wienhold and Neulingworth more than five million markswas also expressly dispensed with.

Landowsky stated again and again that he did not have to do anything with such million mark gifts and had not been involved in Aubiss renovation efforts. However, Berlins Taz newspaper quoted a letter to Landowsky dated January 20 2000, which made clear that the CDU leader was well informed about the whole Aubis proceedings: The private loans to Messrs N. and W. were covered by the purchase of the usufructuary right [the right to use and profit from anothers property].

In February 2001, Landowsky was forced to give up his position on the executive board of BerlinHyp, but continued to draw his lucrative income. He received two full years salary worth 1.4 million marks and will enjoy a monthly pension of almost 30,000 marks for the rest of his life for his work at BerlinHyp. In the middle of May, he was also forced to resign as a chairman of the CDU parliamentary group, but ensured he was elected deputy regional chairmen at the following CDU state convention. However, in view of the increasing pressure, he has already had to vacate this post.

5 TAISEI FIRE AND MARINE INSURANCE CO.

This case study focuses on the events leading up to the bankruptcy of Taisei Fire and Marine Insurance Co (TFMI) with losses of USD $2.5 billion, and describes how TFMI management were unaware of the risks they had retained, irrespective of reinsurance policies they had placed with Fortress Re. It also describes the fundamental characteristics finite reinsurance policies.

In November 2001, following the September, 11th 2001 (9/11) terrorist attack on the World Trade Center, Taisei Fire and Marine Insurance Co (TFMI) collapsed, due to catastrophic insurance claims of $2.5 billion.

In December 2002, Sompo Japan acquired Taisei Fire and Marine Insurance.

5.1 Events

1972 TFMI enters into first management agreement with Fortress Re

2001 Sept, The terrorist attack on the World Trade Centre

2001 Nov, TFMI files for protection (rehabilitation) under Japanese law

2002 TFMI has estimated excess of liabilities over assets of US$765 million

2002 Jan, The remaining business lines of TFMI are acquired by another Japanese insurance company

Taisei Fire and Marine Insurance Co has become the first Japanese company to go under directly as a result of the terrorist attacks of September 11, after it filed for insolvency, equivalent to bankruptcy for a regular company, with the Tokyo District Court on Thursday. Company sources disclosed that the midsize casualty-insurance company had a negative net worth of 39.8 billion yen ($\$US324.7$ million) at the end of September due to massive payouts in the wake of the terrorist attacks in the United States.

Taisei president Ichiro Ozawa told a news conference that the company, which sold reinsurance on the airplanes used in the terrorist assaults, had total payments of 74.4 billion yen connected to the attacks. "An accident involving an airplane crashing in the middle of New York was not something we had included in our calculations," said Ozawa, who admitted that Taisei had not been aware of the risk because it had not checked the contracts made by its overseas agent. "We left it to the overseas agent to decide," he said.

The company is only the second Japanese nonlife insurer to collapse since the end of World War II, following Daiichi Mutual Fire and Marine Insurance Co, which was ordered by the then Financial Supervisory Agency to suspend operations in May 2000. But it is the first casualty insurer to seek court protection and the fourth insurer to collapse in Japan since October. The shock waves will most certainly move through the insurance industry in particular.

Taisei's revenues from insurance premiums totaled 88.7 billion yen in the year ended March 2001, with its assets amounting to 411.4 billion yen, the 16th-largest among Japan's 37 nonlife insurers. Its solvency margin stands at 815.2 percent, well above the 200 percent threshold regarded by financial regulators as the level that indicates the basic health of an insurer.

The move was first confirmed by Financial Services Minister Hakuo Yanagisawa, who quickly stressed on Thursday that "no other casualty insurers show signs of suffering a similar problem" at present.

Taisei has 364.8 billion yen in total debt, the second-largest after Mycal Corp among Japanese companies that have failed this year, according to private research firm Teikoku Databank Ltd. The insurer had planned to merge operations with Yasuda Fire and Marine Insurance Co and Nissan Fire and Marine Insurance Co to form Sompo Japan Insurance Inc next April. Yasuda and Nissan are now expected to combine their businesses as planned and the merged company will likely acquire Taisei. Sompo Japan is set to become the country's second-largest insurance group after Millea Holdings Inc, also to be established next April, by Tokio Marine and Fire Insurance Co and Nichido Fire and Marine Insurance Co.

Yasuda said in a statement on Thursday that Taisei's failure will not affect its plans to create Sompo Japan. "We will start discussions immediately with an eye to protecting Taisei's customers, staff and outlets as much as possible in a joint effort with Nissan Fire and Marine Insurance," the statement said.

Yasuda expects to make 2.6 billion yen in insurance payouts related to the terrorist attacks, while Nissan projects payments of 74.4 billion yen. The Tokyo Stock Exchange said it would delist the company's shares on February 23. The collapse shook the market, and forced a selloff in other insurers. The benchmark Nikkei-225 index was down 1.2 percent at 10,533.83 at the noon break on Thursday, though it recovered to close at 10,696.8.

Trade surplus plunges

Japan's once-massive trade surplus fell by 32 percent last month compared with the previous year, with both exports and imports dropping off, the latest in a long line of indicators that the world's second-largest economy is in the midst of a prolonged recession, with most analysts now forecasting that it will last through at least the end of next year.

Still, Japan enjoyed a surplus for the month of $3.8 billion, and its trade balance with the United States was in Japan's favor at $5 billion. Sales of high-tech products have been hit hard because of the sharp slowdown in the United States, the key market for Japanese goods. The size of the surplus was once a source of bitter controversy with Washington. But given how steadily it has been declining, Washington has expressed concern over the alarming weaknesses in the Japanese economy, and the possible damage it could do to the world's financial system. Japan has the largest national debt in the developed world.

The Japanese administration agreed this week upon a second supplementary budget this year in an effort to generate growth, after already implementing one only late last week. The extra spending in effect breaks a campaign promise by Prime Minister Junichiro Koizumi that he would cap government borrowing at 30 trillion yen. He now says his priority remains long-term restructuring, but says he is hoping to buy some time by alleviating the current economic pain.

6 WASHINGTON MUTUAL

This case study focuses on how in September 2008 Washington Mutual - due to a strategy of low lending standards and bad quality acquisitions - was seized by the US regulators after a history dating back to 1889.

6.1 Learning Outcomes

- Describe how the banks acquisition of Long Beach Financial in 1999, and Providian in 2005 both forays into sub-prime lending - brought about the eventual shrinkage of the credit quality of the banks loan book
- Describe the effect and dependency of FHLB funding when only 60% of the banks assets were funded by depositors
- Characterize the deteriorating effect on earnings that substantially increased provisions and net charge-offs would have
- Identify the events of 2007/8 which contributed significantly to the seizure of the bank by federal authorities

6.2 Long Beach Financial in 1999

7 FANNIE MAE AND FREDDIE MAC

This case study provides an insight into the day-to-day workings of two of the largest US financial intermediaries in the asset backed security business, and the events leading up to their bailout by the US Government in 2008.

7.1 Learning Outcomes

- Describe how the intervention of politicians, and the creativity of banks in selling to sub-prime lenders, overwhelmed the capabilities of both organizations, and derailed what was essentially a viable and valuable business model
- Describe how the computer models were ineffective in stress testing the multiplicity of variable repayment and interest plans initially sold to sub-prime lenders
- Characterize the fundamentals of disintermediation within the asset backed securities value-chain
- Show how intricately linked the originate-and-distribute model is to investor confidence, both locally and globally

8 LTCM

This case study focuses on the collapse of hedge fund, Long-Term Capital Management.

8.1 Learning Outcomes

- Describe the events that led to the collapse of LTCM
- Describe the lessons learnt
- Describe how UBS made a loss due to LTCM
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described

9 ORANGE COUNTY

This case study focuses on the bankruptcy of Orange County, US in December 1994 after suffering losses of $1.6 billion from a wrong-way bet on interest rates in one of its principal investment pools.

9.1 Learning Outcomes

The candidate should be able to:

- Describe the Timeline of Events
- Describe the lessons learnt
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described

Robert Citron was the county treasurer for Orange County.

Robert Citron, the treasurer of Orange County who controlled the $7.5 billion pool had riskily invested the pools funds in a leveraged portfolio of mainly interest-linked securities. His strategy depended on short-term interest rates remaining relatively low when compared with medium-term interest rates.

But from Febuary 1994, the Federal Reserve Bank began to raise US interest rates causing many securities in Orange Countys investment pool to fall in value. On December 6, 1994 Orange County declared bankruptcy after suffering losses of arounf $1.6 billion.

Orange County declared Chapter 9 bankruptcy on December 6, 1994. The bankruptcy was brought on by Citron's investment strategies, which seemed to be an effort to earn high incomes for the county to pay for increased demand for county services in a time of strong opposition to raising taxes

As controller of the various Orange County funds, Citron had taken a highly leveraged position using repurchase agreements (repos) and floating rate notes (FRNs).

In February 1994, the Federal Reserve Bank began to raise US interest rates, causing many securities in Orange County's investment pools to fall in value.

Potential Mitigation

Beware the unconstrained star performer, even when he or she has a long track record. Where theres excess reward, theres risk though it might take time to surface.

If the organisational structure, planning and risk oversight mechanisms of an institution are fractured, it is easy for powerful individuals to hide risk in the gaps.

Borrowing short and investing long means liquidity risk, as every bank knows. Risk-averse investors must tie investment objectives to investment actions by means of a strict framework of investment policies, guidelines, risk reporting and independent and expert oversight.

Risk reporting should be complete, and easily comprehensible to independent professionals. Strategies that are not posiible to explain to third parties should not be employed by the risk averse.

In 1994, Orange County announced that its investment pool had lost $1.6 billion. The announcement from the Southern California county seemed as unthinkable as local authorities announcing they had discovered a glacier. Not only was this the largest loss by a local government investment pool, which forced the county to file for bankruptcy, it shattered the pristine image of municipal bonds. The strange story of how the impossible became possible starts and ends with one man - Robert Citron.

As treasurer of Orange County, Robert Citron was considered to be somewhat of an investing whiz. He consistently beat neighboring investment pools by at least 2% and, as a result, a steady flow of cash came his way. Unfortunately, of the schools, cities and districts that rushed to invest with him, very few looked into how Citron was able to produce such amazing returns.

Cause of Financial Failure

In the simplest terms, Citron counted on interest rates remaining low. From this view, the difference in yield on a short-term yield and a long-term yield offered an opportunity for arbitrage, so Citron used structured notes to take advantage of this.

Although this increased the risk as well as the potential profit, it was a viable strategy. However, Citron leveraged the entire portfolio to further magnify the gains. And, therein, lied the problem.

Citron did a series of reverse repurchase agreements that allowed him to use his securities as collateral for loans to buy yet more securities. Through this method, he turned the sizable $7 billion portfolio into a $20 billion dollar position. The massive leveraging amplified his gains while interest rates followed his predicted course.

In February 1994, however, the Feds began to raise interest rates and Citron's amplified gains turned into amplified losses. As the rate hikes continued, the losses became too much to control.

Bankruptcy and the Aftermath

The county was forced into bankruptcy and came up with a recovery plan to float $800 million in bonds. The bankruptcy tarnished the county's image and the municipal bonds were sold at a discount to the treasury. Luckily, the issue proved to be sufficient to protect the investors, schools among them, from insolvency. Citron, however, never served prison time for his actions.

Reverse Repurchase Agreement

The purchase of securities with the agreement to sell them at a higher price at a specific future date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement.

10 METALLGESELLSCHAFT

This case study focuses on the losses of approximately $1.5 billion made by the "Energy Group" of Metallgesellschaft AG in December, 1993.

10.1 Learning Outcomes

The candidate should be able to:

- Describe the trading strategies employed by the conglomerate
- Describe how proper supervision could have averted disaster
- Describe how similar financial crises may be avoided in the future
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described

10.2 Backwardisation and Contango

Backwardation is a theory developed in respect to the price of a futures contract and the contract's time to expire. Backwardation says that as the contract approaches expiration, the futures contract will trade at a higher price compared to when the contract was further away from expiration. This is said to occur due to the convenience yield being higher than the prevailing risk free rate.

Contango describes the situation whereby the futures price is above the expected future spot price. Consequently, the price will decline to the spot price before the delivery date. Contango is the opposite of backwardation.

11 WORLDCOM

WorldCom achieved its position as a significant player in the telecommunications industry through the successful completion of 65 acquisitions. Between 1991 and 1997, WorldCom spent almost $60 billion in the acquisition of many of these companies and accumulated $41 billion in debt. n Mergers and Acquisitions, especially large ones, present significant managerial challenges in at least two areas.

First, management must deal with the challenge of integrating new and old organizations into a single smoothly functioning business. The second challenge is the requirement to account for the financial aspects of the acquisition.

12 NORTHERN ROCK

This case study focuses on the events leading up to the first run on a UK bank since 1866 that of Northern Rock in August 2007.

12.1 Learning Outcomes

The candidate should be able to:

- Describe the Timeline of Events
- Describe how the banks business model was a significant contributory factor in the crisis
- Understand how liquidity management is so vitally important when managing a mismatched funding book
- Describe the multi-dimensional (co-variance) risk problems of Northern Rock
- Understand Reputational Risk, and the difference between Solvency and Liquidity,
- Discuss the role of the regulator, and Bank of England
- Discuss the events leading up to the losses, the risks incurred, the eventual UK government rescue operation, and the mitigation process described

12.2 Summary

- In 1997, Northern Rock converted to bank status, thereby allowing it to conduct a full range of banking busi ness, with a central securitisation and funding strategy focused predominantly on secured wholesale and other capital market funding
- During the summer of 2007, it was a victim of the general market turbulence and lack of confidence triggered byworsening developments in the US sub-prime mortgage market
- Also in the summer of 2007, notwithstanding unprecedented UK government support, depositors withdrew funds on a large scale
- In September 2007, Northern Rock was forced to seek massive financial assistance from the Bank of England, and eventually reverted to UK government ownership

UK govt. nationalised Northern Rock. Northern Rock plc was best known for becoming the first bank in 150 years to suffer a bank run after having had to approach the Bank of England for a loan facility, to replace money market funding, during the credit crisis in 2007.

Granite

Granite is a securitisation vehicle created by the British bank Northern Rock, based in Guernsey. The purpose of Granite is to parcel up the mortgages provided by the bank and sell the value to investors. Granite has a value of around 45 billion. Northern Rock, advised by Credit Suisse, have decided to let Granite go into run-off, meaning that Northern Rock the bank will no longer supply it with fresh mortgages and bondholders will be repaid as old mortgages expire. In plans made public on 8 December 2009 certain wholesale deposits are to be held by the renamed assets company, Northern Rock (Asset Management) plc, on behalf of Granite.

Nationalisation

In 2008 the Northern Rock bank was nationalised by the British Government, due to financial problems caused by the subprime mortgage crisis. In 2010 the bank was split into two parts (assets and banking) to aid the eventual sale of the bank back to the private sector.

13 CHINA AVIATION OIL (SINGAPORE)

This case study provides an insight of the losses (US$550 million) incurred by China Aviation Oil (Singapore) (CAO) in 2004 due to a combination of trading losses in oil futures being misreported in a period of transition between accounting regulations, and without the appropriate and necessary risk management policies, procedures and systems being in place.

13.1 Learning Outcomes

- Describe how the absence of corporate risk management objectives, policies and reporting, lead to the losses being incurred and hidden
- Describe how proper supervision could have averted the losses
- Discuss the events leading up to the losses, the risks incurred and the mitigation processes described
- Describe how the difference in the accounting requirements of IFRS and IAS 39 lead to the misreporting of the losses
- China Aviation Oil (Singapore) Corporation Ltd ("CAO") is the largest purchaser of jet fuel in the Asia Pacific region and the key supplier of imported jet fuel to the civil aviation industry of the People's Republic of China ("PRC").
- China's jet fuel import monopoly, Singapore-listed China Aviation Oil (CAO), reported in 2004 whopping losses to the tune of US $550 million, due largely to speculation and unwise derivative trading.
- China Aviation Oil said in November 2004 it was forced to close speculative trades when it could not meet funding requirements needed to back the contracts after oil prices surged to a record the previous month.
- Chen Jiulin (44) the former head of China Aviation Oil (Singapore) Corp has been sentenced to a prison term of more than four years for his role in a scandal that drove China's biggest jet-fuel trader to the brink of bankruptcy. Chen Jiulin pleaded guilty to six charges, including failing to disclose a US $550 million trading loss and deceiving adviser Deutsche Bank AG.
- CAO made bets on the direction of oil prices and ran up losses as New York oil futures surged to a record US $55.67 a barrel on October 25 2004.
- Instead of leaving the market and accepting losses of several million dollars, the company raised its bets until it was faced with losses that it could not meet.

- The trading loss was close to the company's market value of US $570 million when the shares were suspended on November 29. The stock had fallen 49 per cent since touching a record high on March 23.

- "Due to the company's inability to pay, the company's creditor-banks commended the forced closing of a number of derivative contracts," Chen said in the statement posted on the company's official website. "As a result, the potential losses that the company had been facing were transformed into actual realized losses."

Timeline

Q3 2003 CAO began making speculative option trades to profit from favourable market movements in oil-related commodities.

October 2004 The situation came to a head when international oil prices significantly exceeded USD 38.00 price, forcing CAO to fund significant margin calls on its open (short) derivative positions.

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