

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 known as 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

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Asks key questions - how losses occurred and why true position was not spotted before.

1.2 Conclusions

- Losses occurred due to unauthorised and concealed trading activities
- Serious failures of control and managerial confusion at Barings aggravated the problem
- Not detected prior by external auditors, supervisors or regulators

1.3 Unauthorised Trading

- Leeson had no authority to maintain open positions overnight, and had specific limits on intra-day trading
- Leeson had no authority to trade in options (except as execution broker)
- **Account 88888** was opened in July 1992 shortly after he was posted to Singapore
- By 31 December 1994 he had accumulated losses of \$ 208 Million on this account. By 27 February 1995, it was as high as \$ 380 Million.
- Leeson represented that he actually made profits, and was considered a star performer by Baring's Bank.
- This profits were "generated" by switching between SIMEX and Japanese Exchanges. The transactions were notionally risk free arbitrage transactions.
- Unauthorised trading was funded by money advanced to BFS by BSI and BSLL.
- Concealment was carried out by the following method
 - Suppression of Account 88888
 - Submission of falsified reports
 - Misrepresentation of profitability
 - False Trading Transactions
 - False Accouting Entries

1.4 Peter Norris (COO Of BSL)

In 1992 Norris started to introduce more controls in what was previously highly uncontrolled.

These controls didn't reach a satisfactory level, and were disparaged by the chairman, Peter Baring, as an absolute failure.

1.5 Lack of Segregation of Lesson's Duties

The fact that Lesson was in Charge of both the front and back office at BFS was a major failing.

Tony Hawes, the group treasurer, made his views known to James Baker, prior to Baker's Internal Audit of BFS in July/August 1994.

This audit recommended segregation of roles, but this was never implemented.