Northern Illinois University

The Baring's Bank Derivatives Disaster: An Analysis and Recommendations

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Abstract

Recent events within the financial services industry have raised concerns regarding the use and control of derivative financial instruments. Limited only by their own imaginations, financial engineers have restructured traditional financial instruments such as stocks, bonds, and loans, into new, complex instruments whose value is derived from their underlying components. It has become apparent that the development and application of derivative financial instruments has outpaced parallel changes in internal control procedures and financial reporting standards. By conducting a detailed case study and analysis of one recent disaster involving derivatives, an assessment will be made as to whether the present controls are adequate to fairly control and report the activities of an entity using these instruments.
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Introduction

Derivative financial instruments are the latest addition to the arsenal of weapons at the disposal of securities dealers. As their use and application increases, the possible incidence of abuse and misuse of these financial instruments increases proportionately. Given the recent derivatives related disasters in the consumer and financial services industries, and local governmental entities, it is obvious that these new instruments must be given consideration.¹

Financial losses related to derivatives represent a two-fold problem. Neither the control procedures relating to, nor the disclosure requirements for derivatives, have kept pace with the introduction of new financial products. It is due to this lack of control and disclosure that has led to the recent losses of Proctor & Gamble, Orange County, and The Baring's Bank of England. A detailed analysis of the latter case, however, provides an opportunity to examine the control and reporting deficiencies, and to recommend corrective courses of action.

A Brief Description of Derivatives

Derivatives are financial instruments that derive their value from the underlying securities, commodities, or currencies on which they are based. Two common methods in which derivatives are used in foreign currency transactions, are hedging and arbitraging.

Hedging

Hedging activities are designed to mitigate the financial risk associated with the sales of a domestic entity denominated in a foreign currency. (See Appendix A) Due to the disparate exchange rates of the currencies of the seller and the buyer, the seller may be subject to loss exposure on the translation of the foreign currency. To offset such losses, sellers often enter into forward derivative contracts to buy foreign currency units at a later date. These agreements, or forward derivative contracts, are structured so that the variations in exchange rates will produce reciprocal translation effects between the contract and the sale. Thus, any loss realized on the sale would be offset by a gain realized on the forward derivative contract.

Arbitraging

Arbitraging involves the buying of forward derivative contracts on one exchange, and selling the contracts on a foreign exchange. (See Appendix B) Profits or losses are realized on the price differences of the contracts between the two exchanges. The investors objective is to: buy the contracts on one exchange, and sell them on a foreign exchange at a higher price, or to anticipate market conditions that make it unprofitable for sellers to exercise the contracts. To reduce the risk of losses, investors will hedge these trades by buying a similar contract on the foreign exchange, so that a drop in the price of the primary contract will be offset by the hedge. Traders and investors who only buy contracts in one direction, are deemed to have taken a “one-way bet” in that their risk of loss is not offset by a hedging contract.³

The Attempt to Avoid Capture

On March 2, 1993, a 28-year-old securities trader casually strolled into the Kota Kinabala, Malaysia office of Royal Brunei Airlines and purchased two tickets on the next flight to Frankfurt, Germany. Although the clerks at the ticket counter seemed puzzled by the fact that the man had paid $1,500 in cash for his tickets, and they failed to make note of the name in which the tickets were registered. An office supervisor, however, recognized the name as that of Nicholas William Leeson, the British securities trader wanted by authorities in England and Singapore for a securities trading disaster that had cost the Baring's Bank of England (Baring's) $1 billion in losses and forced the institution into administration.\(^4\) When the flight landed in Germany, Leeson was taken into custody by German police without incident. Briskly walking at the head of a group of German police and Interpol officials, Leeson, who managed to crack a smug smile for the cameras, appeared unaffected by the hoards of reporters and officials surrounding him. This cool facade suggested that Leeson still had one card left to play.\(^5\)

The arrest of Nick Leeson ended a three day hunt for, what The Bank of England called, the “rogue trader” who had fled

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Singapore after taking risky financial positions in derivative financial instruments on behalf of Baring's. As a result of Leeson's trading activities throughout Asian markets, Baring's had incurred losses of $1.2 billion and had been forced into involuntary administration (Chapter 11) by The Bank of England (a regulatory body similar to The Federal Reserve Bank). With financial markets around the world bracing for the backlash of the trading debacle, many unanswered questions remained. Among these questions were:

- How had **one trader** been able to over-extend the financial position one of the oldest and largest banks in England?

- How had Baring's **internal control structure** allowed Leeson's trading activities to occur and continued unchecked?

- Were the internal controls at Baring's stringent enough to **detect and prevent the potential risks** associated with the types of transactions into which Leeson had entered?

- And, **what steps should be taken** by other financial institutions to insure that traders are not able to affect similar losses in the future?

To answer these and other questions officials would have to look no further than Baring's own internal control structure deficiencies. After a case analysis of the derivatives trading activities of Nick Leeson in Singapore, authorities would

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conclude, as paraphrased by the words of one senior Baring's official, "Shame on Nick Leeson for bringing us down, but shame on us for letting him."  

By examining the events that led up to the Baring's disaster, and understanding the causes, investors and managers will be better prepared to prevent losses of this magnitude.

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Nick Leeson's Early Years

Born into a public housing community to blue-collar parents, Nick Leeson began his life in a much less illustrious fashion than he ended in demise. Although Nick did not move beyond secondary school to attend college, his teachers remembered him as an intelligent, sensitive boy who dreamt of something more than a life of toil could offer. Upon completion of secondary school, Leeson established himself in one of the local town banks as a clerk before moving on to join Morgan Stanley as a Junior Operations Clerk in 1988. During his two years at Morgan Stanley Leeson learned the basics of banking and the procedures for clearing and settling business at the end of the day.

After two years at Morgan Stanley, Nick moved on to The Baring's Bank of England in 1990 where he joined a team of investors dealing in futures contracts and derivative financial instruments. Leeson was beginning to find his trading niche and demonstrate to his superiors that what he lacked in formal education, he more than made up for in ambition. Paul Bluestein, of The Washington Post, described Leeson at this point as, a young man who was able to establish himself in "a place where people without titles, who attended the wrong schools, or no schools, [had been able] to break through Britain's still relatively rigid class system."  

Baring's Bank of England was founded in London in 1761 by two brothers named John and Francis Baring. The "blue-blooded" bank, so called because among it's clients Baring's had always counted the Royal Family, had long been a player in world affairs. It was the chief financier of the Louisiana Purchase (1803), provided backing to the French government during the Napoleonic Wars (early 1800's), and extended loans, of which none was ever paid back, to the Southern Confederacy during the American Civil War. Despite it's distinguished clientele and participation in significant world events, Baring's had nearly floundered twice before February, 1995. As a result of financing the American purchase of the Louisiana Territory from France in 1803, Baring's briefly went into bankruptcy. In 1890, after it was unable to collect on millions of dollars in loans to the government of Argentina, the institution almost closed it's doors for good but was bailed out with loans secured from The Bank of England on the credit of the Royal Family.


Establishment of the Singapore Office

During the late 1980's, Baring's Securities, the trading subsidiary of Baring's, established a fledgling, lack-luster office in Singapore to take advantage of the rapid growth of the Simex (Singapore Monetary Exchange). The Simex primarily traded financial instruments from the Osaka, Japan (Osaka) stock exchange. The Washington Post reported that, “In order to build-up the backroom operations of the office...[the place where paperwork concerning trades is processed,] Baring's dispatched an operations clerk named Nick Leeson [to Singapore in early 1992].” A colleague of Leeson's at Baring's stated that this assignment was “key for Leeson...He trained everybody, he told them what they [were] supposed to know and what they [weren't] supposed to know.”

As he worked at a blistering pace in setting up the Singapore backroom as an efficient, able, trading subsidiary, it became evident to his associates, that Leeson, who lacked a college education, was a quick study who had the ability to learn by observation and had a keen financial intuition. His superiors apparently noticed his hard work and ability, as in mid-1992, he was promoted to a position where he was running the Baring's trading desk on the Simex floor in addition to supervising the activities of the backroom. With the responsibility for trading in addition to his responsibility over the backroom, Leeson now controlled the authorization,

execution, and processing of all Baring's trading activities in Singapore.\textsuperscript{13}

Jeremy Mark, the Chief Singapore Correspondent for The Wall Street Journal indicated that, "...Leeson's primary job at Baring's Securities was to arbitrage Nikkei-225 [the index used to measure activity on the Osaka exchange] futures contracts in Singapore and Osaka, making relatively small amounts of money on the differences in the prices of two similar contracts."\textsuperscript{14} (See Appendix C) Sara Webb, of The Wall Street Journal reported that, "...Leeson [became] known for aggressive trading and had a maverick trading reputation."\textsuperscript{15} An associate of Leeson's in Singapore noted that, "...[Leeson] was losing or making $1 million a day", but that as long as his trades were in the black at the end of the day, Baring's managers didn't seem to care what Leeson did.\textsuperscript{16}


Leeson's Activities in Singapore

A Baring's trader indicated that Leeson was regarded as "a very good floor trader...who would exploit differences without taking risky positions." The Wall Street Journal quoted a Baring's official who stated that during October, 1994, that "[Leeson] was doing such a good job that it was decided he should begin trading for his own account. [Baring's was] in a position to exploit the differences between similar Japanese stock-index contracts traded on Simex and Osaka." 17

At this time, Leeson rented a $1 million house and bought a brand new $75,000 Porsche 911 convertible. Prone to drinking binges with Baring's associates, Leeson often entertained guests, at his own expense, all night long. Once, Leeson became so intoxicated, that Baring's officials had to appeal to the Singapore authorities to negotiate his release from jail on drunken-disorderly charges. Nick and his wife, Lisa, often vacationed in Europe and other trendy Asian resorts during this time, such as the beach spas of Kota Kinabala. 18


The Confidential Client

After receiving authorization to trade autonomously, Leeson began to take long positions for an anonymous client whose identity he insisted be kept confidential. Such clients are not considered unusual in the securities industry, and traders are not usually questioned regarding such activities. Even when trading documents were missing vital client information, Leeson was able to coerce the back-room employees, whom he had trained, to overlook these indiscrepancies and allow him to fill-in the blanks at a later date. Despite any inconsistencies in the identity of his client, Leeson's supervisors were quoted by The Wall Street Journal as saying, “We heard rumors of a huge derivatives position, but we believed it was for a client and that we were just acting for them.”

January 17, 1995: Disaster for Kobe, Japan and Nick Leeson

In an interview with AP-Dow Jones on February 20, 1995, Nick Leeson indicated that he had recently been arbitraging - buying derivatives contracts linked to the Nikkei-225 on the Simex, and selling them on the Osaka exchange. This activity, he added, enabled him to take relatively short positions in a few derivatives contracts and deliver modest profits to his clients.20 What Leeson neglected to disclose to his Associated Press interviewer, was that since October, 1994, the time at which he was given a private account to trade on, he had been trading directly for Baring's on the Simex via his personal Baring's account, and an error account set-up to mark “mistake” trades. In addition, Leeson was “straddling” the market by selling both put and call options on the Simex. If stock prices remain steady, and it is unprofitable for the holders of the contracts to exercise the call/put options, the investor can earn a modest profit. The net result of Leeson's put and call arbitraging was that he had obligated Baring's to buy and sell stocks on the Osaka exchange if the market shifted too drastically in either direction.21

On January 2, 1995, when the Nikkei-225 index was 19,600, Leeson bought 500 contracts whose value was derived from the level of the Nikkei-225. Each point fluctuation in the Nikkei-

20 Id.

225 was worth about $10, yielding a per contract price of $190,000. The purchase price and the combination of put and call contracts that Leeson held required him to sell when the index rose above 20,000 or dropped below 18,000.\footnote{Mark, Jeremy. "Trader Sent To Clean Up Backroom Woes Left A Globe-Rattling Mess," The Wall Street Journal, 28 February 1995, A3.} On January 17, 1995, the Kobe rocked Japan, and financial exchanges around the world recoiled at the effects. Hit particularly hard was the Osaka exchange, where the Nikkei-225 index began its downward spiral that leveled off at a 13% decrease from 19,330 on January 17, 1995, to 16,809 on February 28, 1995. (See Appendix D) Sensing the danger that his "strangle" strategy was about to fall apart, Leeson now considered several alternatives:

- Sell all the derivative contracts, suffering large losses, a major career setback, and severe Singapore penalties for securities fraud
- Ride out the storm, hoping for an upswing in the market to ease the losses
- Buy a large number of derivatives contracts of the same type originally purchased, in effect, doubling all bets, while hoping that a slight movement in the market would produce magnified gains
- Try to force the market into recovery by aggressively trading stocks on the devastated Osaka exchange

Since Leeson had established himself as a man who had the ability to not only predict the movement of the market, but
influence that movement, he chose a combination of the latter two, "dicier" approaches. 23

In a basic double-or-nothing bet, Leeson began to buy as many Nikkei-225 futures on the Osaka exchange as he could find. "When Baring's buys, other brokers tell their clients about it, so his hope obviously was that other people would follow him," stated a Singapore based securities broker for an American bank.24 As a result of his aggressive acquisitions of derivatives futures on the Osaka Exchange, Baring's held 54% of all the open contracts on the market by February 24, 1995. Unfortunately for Leeson, his strategy did not pay off and on February 25, 1995, most of the contracts that he had acquired during the last month became due. Leeson may have been able to meet the obligations on the contracts and cover the losses without alerting his superiors, but he had already depleted the cash reserves of the Singapore office to cover the daily margin calls on the declining contracts. Knowing that his illegal and fraudulent activities were about to come to the attention of Singapore and British officials, he decided to flee to Britain rather than take a chance of life in prison in Singapore.25

23 Id.


Finger Pointing

The day after the financial press revealed the extent of Leeson's damage, officials at Baring's immediately began to point fingers of blame at one another. In truth, however, everyone at Baring's who had knowledge of Leeson's activities in Singapore was to blame for the demise of the bank. By ignoring the control deficiencies that obviously existed, and by making a concerted effort to encourage Leeson's trading habits, rather than remaining skeptical of them, Baring's management merely provided him with the opportunity to commit the act. Commenting on the control system in place at Baring's at the time of the incident, an official at The Bank of England indicated that the situation was, "only tangentially related to derivatives...It was essentially a control problem rather than a derivatives problem."26

The July, 1994 Internal Audit of Singapore Operations

Prompted by unusually large profits, $30 million in the first seven months on 1994, the Internal Audit department of the Baring's Bank of England conducted an audit of the Singapore office of Baring's Securities.27 Their report


identified several notable concerns regarding the activities of Nick Leeson. Among the concerns noted were the:

- Inadequate segregation of duties in Singapore
- Inadequate supervision of Leeson's trading activities
- Red flags sent up by Leeson's activities
- Absence of risk management/control mechanisms in Singapore

Additionally, the report recommended the immediate establishment (by August, 1994) of control procedures which would segregate the trading and accounting activities in Singapore and provide independent control mechanisms to monitor Leeson's Singapore activities.28

Officials in at Baring's Securities, however, didn't like being told how to run their trading business by the Baring's Bank of England, and a "turf battle" ensued. When Leeson's supervisors in London, whose bonuses increased as a result of the profits he generated, were informed of the implications in the report, they ignored it. Eventually, the recommendations, and the report, were buried under political infighting in London.29


29 Id.
**Inadequate Segregation of Duties** When Leeson was assigned to Singapore in 1992, he was placed in charge of all backroom operations, where all of the days trades are processed and cleared after they have been properly approved. Not only was he in control of the processing function, but he was given the liberty to hire new personnel and train them in any manner he desired. London even gave him permission to revise the backroom operating procedures that were considered standard across the industry. In 1993, Leeson's domain was expanded when he was placed in control of executing and authorizing all of Baring's trading activities on the Simex floor. 

**While the responsibility for clearing and processing trades also remained under his authority, Leeson was now in control of the execution, authorization, and processing of all Singapore transactions.**

Such a violation of the separation of duties was clearly evident to Baring's Internal Audit staff as they made note in their report of *"the inherent risks in a situation where Mr. Leeson was in charge both of trading and settlement operations."* The report recommended that controls be immediately established that could monitor Leeson's trading activities.

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Inadequate Supervision  “I don’t think this is a problem that has anything to do with regulation. It has everything to do with supervision and lack thereof,” said the manager of a Hong Kong derivatives brokerage firm, commenting on the Baring’s incident. Those words were well founded, for Nick Leeson operated relatively autonomously in Singapore with little direct supervision from Baring’s managers in London. The only control governing the appraisal of Leeson’s activities was in the monthly Singapore trading activity reports prepared by Leeson and submitted to Baring’s personnel in London. Despite the fact that Leeson controlled the information contained in these reports, their content pleased his direct supervisors whose bonuses increased as his trades generated greater profits. By failing to implement the July, 1994 recommendation calling for the presence of an independent compliance officer in Singapore, Baring’s allowed Leeson to continue as his own reporting supervisor.  


Failure To Recognize Red Flags  Leeson's activities sent up several red flags that should have been observed by Baring's personnel and investigated. Among these red flags were the:

- Increasing requests for funds to meet margin calls
- Large profit margins generated by Leeson's activities
- Absence of adequate hedging on Leeson's trades
- Requests by Simex officials in Singapore for a Baring's investigation into Leeson's activities
- Absence of risk management/control software in the Singapore office
- Unwillingness of Leeson to reveal the identity of his confidential client

According to other traders in Singapore, Europe, and America, these warning signs should have been clearly evident.34 Instead of recognizing and investigating the circumstances surrounding these conditions, Baring's officials either ignored them or acted to exacerbate the situation. During the end of January, when Leeson's trades began to account for a majority of the open positions on the Osaka exchange, Singapore officials contacted Baring's in London and requested an investigation into Leeson's trading activities. Instead of making inquiries to disprove the allegations of improprieties by Singapore, Baring's sent unit Treasurer Tony Hawes to Singapore to inform regulators that Baring's was aware of Leeson's trading position and stood behind him. One Singapore official commented that, "[Baring's] was very happy with the P and L Leeson was producing and they were very defensive of

their operations when people asked questions."35 During the same trip, Hawes attended to Leeson's requests for additional funds to cover cash due on margin calls by securing up to $900 million in credit at various Japanese banks. In retrospect, this action is viewed as unusual since, "on hedged accounts, investment firms do not need to send so much money to cover demands by the exchanges for collateral, or margin calls." And, investment firms do not usually offer the service of providing money, especially $900 million in cash, to clients for margin calls without a substantial amount of collateral.36

Absence of risk management/control mechanisms Securities traders interviewed by The Wall Street Journal shortly after the Baring's news broke, stated that elaborate safeguards are built into their computer systems to set off alerts to managers and supervisors if the positions a trader is taking will expose the firm to major potential losses. One trader was quoted as saying that, "any half-way decent risk management system should highlight a position like the one Leeson was taking, in two seconds flat."37 Officials at Baring's claim that such systems were in place, but that because Leeson indicated that his trades were made on behalf of a client and being run through

37 Id.
the error account, he was able to evade the system. Tokyo based derivatives trader Dave Bostick, expressed skepticism of this theory during a Washington Post interview, when he said, “Every company I've been affiliated with has systems in place so that everybody knows what the potential dangers are,” even when trades are executed on the client level.\textsuperscript{38}

\textsuperscript{38} Id.
Was Leeson Innocent?

The evidence against Leeson is overwhelming. It was well known among firms operating in Singapore that Baring's was taking long positions in Nikkei-225 futures. If other firms are aware of the financial position of a competitor, it is reasonable to expect that the executing firm is knowledgeable of its own commitment. Baring's officials must have known the risks involved with Leeson's activities. In a follow-up meeting with Leeson after the issue of the July, 1994 audit report, his superiors cautioned him that the large volumes of trades he had been executing might lead to accounting errors. When Leeson appealed to Baring's for additional cash to meet margin calls, his requests were immediately answered to the tune of $900 million. A former Baring's executive, now with another investment firm in Japan, stated in a Wall Street Journal interview, "I find it inconceivable that Baring's was unaware of the situation."39 It appears that just as the evidence can suggest that Leeson acted alone in executing this fraud, that same evidence can also imply that Leeson was merely a "patsy" acting on orders from London.

Recommendations

While it appears possible that Leeson was able to override existing controls in place at Baring's, and force the entire bank into administration, there are elementary controls that can be employed to reduce the risk of the reoccurrence of such a disaster. Investors providing capital to companies that utilize derivatives for hedging or arbitrage should determine that certain controls exist before placing their investments at risk. Additionally, manager's of entities trading derivatives and companies using derivatives for legitimate purposes should be certain that those authorizing, executing, and processing these transactions are working within a operational control framework.40

Disclosure for Management

When extensive disclosure is required of certain material in the annual report, it is reasonable to expect that management will be knowledgeable of such material. For example, when disclosure of significant transactions among related parties is required in an annual report, management, having signed the report, is attesting that they have knowledge of these events. If there are any unauthorized transactions that are uncovered as a result of compiling the information

contained in the disclosure, it is likely that management will be notified accordingly. By requiring disclosure of significant activities in derivative financial instruments, regulatory bodies then, could increase the likeliness that management would have knowledge of these events. The disclosures should include those similar to the requirements stated in the Financial Accounting Standards Board's Statement of Standards No. 105. Namely, those disclosures include the:

- Face, contract, and notional amount of the instrument
- Nature and terms of the instrument
- Potential credit/market risk
- Cash requirements, including margin calls on the instruments

Additionally, the instruments should be segmented by the type of activity for which the instrument is employed (i.e. hedging, arbitraging, etc...).\textsuperscript{41}

\textsuperscript{41} Financial Accounting Standards Board Statement of Standards No. 105.
Disclosure for Users of Financial Statements

To enable users of financial statements to be able to better understand the nature of derivatives holdings, disclosures of the following items should also be included in the footnotes of the financial statements.

- Definitions of various activities for which derivatives are used
- Collateral used to back the instruments
- Disclosures related to derivative financial instruments held for trading purposes and those not held for trading purposes.

Current Action

In addition to the issuance of financial accounting guidance on the disclosure of derivative financial instruments, other regulatory bodies are taking action as well. In April, 1995, the Securities and Exchange Commission announced it was would provide guidance to users of derivative financial instruments. During a Spring, 1995 conference, the SEC identified the following red flags that may indicate misuse of and possible losses from the use of derivatives:42

- Derivative transactions that are designed specifically to cover losses
- Inadequately trained staff
- Upper management is ignorant of associated risks
- Absence of reliable valuation mechanisms
- Inadequate disclosures in footnotes

42 Coopers and Lybrand Seminar Notes. April, 1995.
By recognizing that deficiencies such as these exist, and making the proper adjustments, managers and investors may be able to mitigate potential losses due to derivative financial instruments.
Prologue

Immediately after it became apparent that Baring's would not be able to meet the financial obligations of the due contracts, The Bank of England rushed to piece together an eleventh-hour plan to save the bank. Appealing to an international consortium of fourteen banks, The Bank of England vowed to save the venerable financial institution, yet again. The plan fell apart, however, when the financial pledges of the participating banks fell short of excess Baring's losses and The Bank of England indicated that it would not cover the short-fall. Eventually, The Bank of England allowed Baring's to slide into administration, the equivalent of bankruptcy, and be sold to a Dutch concern. For the price of $1, the Internationale Nederlanden Groep, NV, reached an agreement to settle the obligations of Baring's in a straight purchase of its assets and liabilities.43

Bibliography


Appendix A: Hedging Transaction
Appendix B: Arbitraging (without a hedge)

Trader \[\rightarrow\] Exchange A

Purchase contract on Exchange B

Trader \[\downarrow\]

Resell contract on Exchange B at a higher price

Exchange B
Appendix C: Leeson's Trading of Nikkei-225 Derivative Futures Contracts

Nicholas Leeson

Purchase of contracts linked to the Nikkei-225
on the Simex Exchange

Nikkei-225

Each point fluctuation
of the Nikkei-225
equals $10

Simex Exchange

Resale of Nikkei-225 Derivative
Futures Contracts on the
Osaka Exchange

Osaka Exchange
Appendix E

Timeline of Events Significant to Barings

1761 - The Baring's Bank of England (Barings) founded by John and Francis Baring

1803 - Barings finances the American purchase of the Louisiana Territory from the French government and is briefly forced into administration

1861 - Barings provides loans to the Southern Confederacy during the American Civil War

1890 - The government of Argentina defaults on millions of dollars in loans to Barings's Britain's Royal Family rescues Barings from disaster by using their credit to secure funds to cover Barings's losses

1986 - Nick Leeson graduates from secondary school and begins to establish himself in London's banking community

1988 - Nick Leeson joins Morgan Stanley as a Junior Operations Clerk Barings Securities establishes a branch office in Singapore

1990 - Nick Leeson joins a group of investors at Barings specializing in derivative financial instruments

1992 - Leeson assigned to clean-up and supervise the backroom operations of the Singapore office

Mid 1992 - Leeson receives promotion to Trading Floor Manager of the Singapore office

He retains his position as the supervisor of backroom operations

October, 1994 - London authorizes Leeson to begin trading for Barings and clients on his personal account

January 3, 1995 - Leeson begins to acquire Nikkei-225 derivative futures contracts

January 17, 1995 - Kobe, Japan is rocked by a devastating earthquake Stocks on the Osaka, Japan exchange begin to tumble

January 17 - February 24, 1995 - Leeson executes mass purchases of Nikkei-225 derivative futures contracts

February 20, 1995 - Leeson states in a Dow-AP interview that he has been arbitraging for clients

February 24, 1995 - The contracts that Leeson has bought become due

February 27, 1995 - Barings is forced into administration by The Bank of England

March 3, 1995 - The Baring's Bank of England is sold to a Dutch entity for $1