

Rogue trading scandal destroys market credibility

IF YOU think you've had a stressful couple of weeks watching the market pitch up and down, spare a thought for the lonely, sweaty guy on a trading desk in a city somewhere. He's made a wrong bet on some obscure derivative, it's getting more wrong by the minute, and he's frantically trying to hide his covert losses.

Now spare a thought for his future victims. Because it's rarely the trader himself who goes through the most stress after he gets caught.

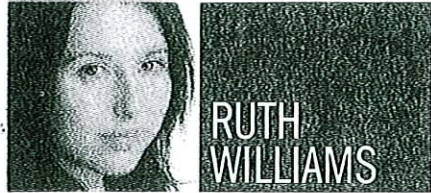
The financial world is reeling at the news that a Societe Generale trader has lost \$US7.2 billion (\$A8.14 billion). As with any rogue trader scandal, the financial world is also wallowing in the mundane details of the now-notorious man's life.

Jerome Kerviel may have been responsible for Ben Bernanke's emergency interest rate cut and billions of dollars in losses on markets around the world. Apparently, he also only had 11 Facebook friends and, one online report observes, carries a "furrowed brow" in his photo.

Cases like this have several things in common, apart from the media's search for quirky details about the rogue trader's life.

Most of these traders report an overwhelming feeling of relief or even elation when they are caught. This usually kicks in just as an overwhelming feeling of nausea and panic takes hold in the boardroom at the place the trader worked.

Inevitably, a middle manager or two are sacked, and perhaps even the bank's



chief executive. The bank's investors are left to watch as the share price dives.

But the most destructive effect of all is the wider loss of investor confidence in financial markets. As Paul Latimer, a lecturer in business and stock exchange law at Monash University observes, "it is about the credibility of the market — if people don't trust the market they won't invest in it. If people get an idea that there's dodgy things happening, or fraud, they will stick their money in oil paintings or property."

What can help rebuild that confidence and credibility are measures to prevent it happening again. What can't help are proclamations that "all the internal controls in the world" won't stop such crimes.

This implies there is no, or very little, fault on the part of a bank that employs such a person and fails to detect his activity. It instead paints a picture of the trader as a malicious and acquisitive financial genius, robbing his employer to support his lavish lifestyle. This is rarely the case.

One could argue that, human greed and ingenuity being what they are, a truly determined trader could get around

▶ Continued **BUSINESSDAY 3**

THE BOTTOM LINE

S&P/ASX 200

5860.3

▲ 279.9

Ben Aug 26/11/08 p1