

Jerome Kerviel

Rogue Trader
Societe Generale
Banking Corp
Paris, France



E-leader Krakow, Poland 2008

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PERSONAL BIO

- Jerome Kerviel was born on January 11, 1977, and grew up in Pont L'Abbe, Brittany, where his family was well-regarded.
- He obtained a Bachelor degree in finance at the University of Nantes in 1999, then completed a Masters in Finance at University of Lyon, graduating in September, 2000, specialising in organisation and control of financial markets..

WORK EXPERIENCE



- He started at Societe Generale's Middle Office in August 2000, he learned how the bank and trading system worked.
- In 2002, he was a Trader Assistant, on risk analysis and hedging and in March 2004, he was a Trader and Market Maker.
- In 2005 he was on the bank's Delta One products team as a junior trader.
- Kerviel earned a bonus of €60,000 on top of a €74,000 salary in 2006, considered modest in terms of the salaries paid to traders in the financial markets. He had hoped for a €600,000 bonus for 2007.

Fraud Allegation

- SG stated that Kerviel was assigned to arbitrage between equity derivatives and cash equity prices, and "created fictitious trades in late 2006 and early 2007".
- SG said that throughout 2007, Kerviel had been trading profitably; however, SG accused him to engage in unauthorized trades totaling €49 bn.
- SG claimed that Kerviel created losing trades as to offset his early gains. Kerviel generated €1.4 billion in hidden profits in January 2008.
- SG uncovered Kerviel did unauthorized trading on January 19, 2008.
- SG then closed out these positions on January 21, 2008, a period in which the market was experiencing a large drop in equity indices, and losses attributed are estimated at €4.9 billion.

Did he act alone?

- Kerviel apparently worked alone.
- How could unauthorized trading of this magnitude go unnoticed? High daily volume in low-risk trades.
- Kerviel would cancel the trade, then he would place another transaction to avoid detection or questions from his superiors.
- Kerviel's lawyers, Elisabeth Meyer and Christian Charrière-Bournazel, said SG managers "brought the loss on themselves"; accused the SG wanting to "raise a smokescreen to divert public attention from far more substantial losses in the last few months"; and said that Kerviel had made the bank a profit of \$2 billion as of December 31, 2007.

Bank response

- Chairman Daniel Bouton describes the pattern as "a mutating virus" in which hundreds of trades were hidden behind offsetting faked hedge trades.
- SG said Kerviel would close the trades two days, just before the trades' timed controls would trigger notice from the SG internal control system, and Kerviel would initiate new trades.
- City experts have expressed skepticism of the bank's account, saying that a pattern of closing out trades within the three day cycle alleged, could not be accomplished given the immense sums involved. Kerviel has simply been suspended, but is in the process of being fired by the bank.

WHY HE'S NOT SO BAD

- Kerviel was not thought to have profited personally from the suspicious trades.
- Prosecutors said Kerviel was cooperative with the investigation, and told them his actions were also practiced by other traders in the company. Kerviel admitted to exceeding his credit limits, but he was working to increase bank profits.
- He told authorities that the bank was happy with his previous year's performance, and was expecting to be paid a €300,000 bonus.
- Family members speaking out say the bank was using Kerviel as a scapegoat to excuse its recent heavy losses.

Bank losses

- The fall-out from the Kerviel affair, which saw Societe Generale frantically try to unwind the hefty positions amid troubled market conditions, cost the bank \$7.1 billion in losses for the fourth quarter of 2007. It also led to speculation that rival **BNP Paribas** would launch a takeover bid, which so far has not materialized.

Jail Time



- Société Générale (SG) filed a lawsuit against him and Kerviel turned himself in to the Paris police on Jan. 26, 2008.
- He spent 40 days in jail. SG sent him a letter for firing him. French law, firing requires F2F.
- Kerviel could not meet SG due to court order, therefore he could not be fired.

Release from prison?

- Kerviel would get his first taste of freedom in five weeks on Tuesday, March 18, 2008, after he was released from prison in Paris.
- The 31-year-old former trader at **SG**, who was accused of forgery and abuse of trust, had been behind bars since February. Despite fears that Kerviel might have had a partner-in-crime, the man who apparently lumbered his employers with around \$50 billion in bogus trades, was released.

SG Major Players?

- Eric Cordelle, Kerviel Supervisor, was fired
- Thomas Mougard, Kerviel Assistant, was fired.
- SG stock price dropped 40% due to this event.
- CEO Daniel Bouton offered to resign, but was rejected by the SG board

Fair trial?

The Paris public prosecutor's office said on Tuesday that it would not appeal this latest decision. "This judicial supervision is clearly stricter," a spokesperson for the public prosecutor's office told Forbes.com.

A spokesperson for Societe Generale would not comment on the news, but one of the bank's lawyers told Agence France-Presse that the "very strict" terms of Kerviel's release made the decision a fair one.

What is NEXT?

- Kerviel notoriety had spawned over 150 groups on social-networking Web site Facebook, which included one called: "Thanks to Jerome Kerviel, I believe in French university education."

Ethics Lessons learned?

- Financial transactions were complicated
- Senior manager did not understand the details, and turned a blind eye on rules, as long as someone was making profits.
- When the loss mounted, they needed a fall guy. Kerviel was the one to blame.
- Would this happen again? You bet.