

News - Societe Generale learns lessons

Daniel Bouton, the head of Societe Generale SA said lessons learned from its trading fiasco are helping strengthen security in the global banking community but that doesn't mean banks will be spared from future fraud. Speaking in his capacity as president of the French Banking Federation, Bouton said losses of almost €5 billion (more than \$7 billion) SocGen blames on unauthorized trades by Jerome Kerviel have prompted the French bank and many of its competitors to strengthen control systems. Societe Generale has taken several steps to tighten controls following an internal report into what went wrong in the Kerviel case. The report noted 74 red flags raised on Kerviel's trades that failed to sound the alarm — he was spotted only on the 75th. The bank says Kerviel faked hedging transactions across a range of financial instruments. They weren't spotted because Societe Generale's back office controllers monitored the trading of individual products separately. The bank now has installed new controls that cross-check red flags raised across different products, allowing individual traders' histories to be monitored. Societe Generale has also changed its procedures to monitor the gross exposure of traders, besides the net position. Kerviel amassed positions worth around €50 billion (\$78.47 billion), but his net position appeared unremarkable because he balanced his real trades with fictitious transactions. Security has been stepped up in computer systems to prevent a repetition of Kerviel's ability to borrow colleagues logins and passwords. He is facing preliminary charges of breach of trust, forgery and unauthorized computer activity. Bouton said Kerviel's trades haven't dented confidence in the bank among "the hundreds of financial operators we work with. This fraud does not put into question our risk-assessment system because it involved positions that were hidden," he told a finance committee hearing. "We have not lost any clients." The judicial investigation could end by this summer and a trial could be held next year, the trader's lawyer, Guillaume Selnat said earlier this month. Bouton offered his resignation twice over the scandal, but his offer was rejected by the board.