

# SocGen: Lessons Learned From Kerviel

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PARIS — The head of Societe Generale SA said the lessons learned from its trading fiasco are helping strengthen security in the global banking community \_ but that doesn't mean financial institutions will be spared from fraud in the future.

"Fraud has existed for as long as banks have existed," Daniel Bouton told a parliament committee. "There will be other cases."

Speaking in his capacity as president of the French Banking Federation, Bouton said losses of more than \$7 billion that SocGen blames on unauthorized moves by trader Jerome Kerviel have prompted the bank and many of its competitors to strengthen their control systems.

"We are an innovator in something which is being studied: changing the architecture of control," he said. "There are a number of banks which are in the process of developing this."

Societe Generale has taken several steps to tighten oversight 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 euros, or \$78 billion, but his net position appeared unremarkable because he balanced his real trades with fictitious transactions.

"It is not the business of banks to take large positions," Bouton said.

Computer security has also been stepped up to prevent a repetition of Kerviel's trick of borrowing the logins and passwords of colleagues.

Georges Ugeux, a former vice president at the New York Stock Exchange who now runs the Galileo Global Advisors consulting group, said the SocGen debacle has prompted a lot of banks to re-examine their own internal controls \_ but that doesn't mean what happened in Paris could happen anywhere.

"What's surprising is the amplitude of the position that one junior trader could move by himself: 50 billion euros is a lot of money for one single person," he told The Associated Press.

"I hope Mr. Bouton is not trying to say that Societe Generale was like everybody and everybody had to tighten their system afterward just to try to minimize the deficiencies of its own system and of its own bank. The deficiencies were clearly serious at Societe Generale," he added.

Bouton offered his resignation twice over the scandal, but the company's board rejected it.

Kerviel, recently released from jail pending further investigation, claims his superiors must have known what he was doing but chose to look the other way while he was making money.

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."

Kerviel's lawyer, Guillaume Selnet, said earlier this month that the judicial investigation could end by this summer and a trial could be held next year.

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