Baring case study

Business

The doubling strategy allowed Lesson's the opportunity to recoup losses suffered , which required him to double his bets in the event of a losses tied to the 88888 Account, so that any slight recovery in Japanese stocks would ring him back too break-even point. Specifically, Lesson's had bet that the Japanese Stock and interests rates would rise precisely the time the Japanese Market was sinking (shares prices and interests rates declining).

Rather than selling to neutralize his positions, Lesson's viewed every decline in the SIMMS and SSE markets as a buying opportunity. Lesson attempted to recoup losses by buying long positions in the Nikkei 225 futures contracts and short positions in Japanese government bond futures. 3.

No, senior management deserves considerable, if not equal, accessibility for the decline and failure of Barings Bank, as they directly ignored and downplayed the obvious indications of foul-play by Lessons, in regards to the enormity and consistency of his profitability, which were supposed to be the single result of arbitraging (essential no risk; low exposure) instrumental trading, In addition, Lesson's supervisor ignored internal auditing reports, in favor of his continued posting profits, as well as failure to have Lesson substantiate his demands for cash to satisfy his margin calls, as well as consideration for the misleading explanations he provided to Justify his cash needs.

Furthermore, senior management failed to facilitate transparency in his transactions and day to day reporting, as they allowed Lesson to manage both back and front house responsibilities and functions, Inch specifically allowed him to manipulate his operations as long as he did. 4. Sees, the

Barings Board of Directors should be held culpable for the losses of Lesson's due to their failure to adequately define his operations and ensure Lesson's operations within the procedural limits and internal trader restrictions, which would eave identified Lesson's manipulation and outrageous risks exposure and leveraging. A fair way to evaluate the performance of Bearing's board of Directors is to consider the internal motive for allowing Lesson's to operate, which is the fact that the first Hears of his operations at BBS, were directly accounting for a significant percentage of Barings overall profitability, which based on the supposed nature of Lesson's operations (Arbitrage), would have indicated red flags or called for scrutiny, related to such consistent and significant profitability generated by Lesson's operations.

The Board of Director intentionally ignored internal reports and easily accepted Lesson's personal explanations for his operations, which were entirely based on his performance results, which appeared to benefit Barings overall, as it relates to the seemingly profitable operations of Lesson, and the extent to which his operations accounted for the overall profitability of the bank. 5.

The simultaneous trading of the two exchanges is not what rendered Lesson's activities as speculative, but rather the composition of the trades and the reality that if Lesson was arbitraging, increasing arising in one exchange should have been reciprocated by earnings on the other exchange. In addition, Lesson wasn't hedging his trades to offset his exposure, but simply applying his independent reason and expectations to guide his operations.

Lesson used the 88888 accounts to cover the reality that he was speculating and not arbitraging, by assigning the extra trades and thee losing transactions to the 88888 account. In addition, he used the 88888 account to conceal the fact that he was long in amounts that were 2-3 times larger than regulations allowed, and that he did not eave short positions to offset these enormous exposures. 6. Nick Lesson's sold options instead of buying them cause he needed the cash from the premiums from the multiple short straddles he sold per long futures contract to satisfy his increasing margin calls.

If he would have combined long call options on the Nikkei Index with short forward contracts, he would have created a long straddle hybrid. 7.

It wasn't the existence of the 88888 account that was the fundamental problem at Barings nana, as indicated by the initial usage at the Indonesian Branch, to which Lesson was iris exposed to it. The problem with the account came when there was no clear separation of authority over both front (trading) and back (reconciliation, recording, reporting) house operations, to which Lesson was responsible for at BBS. This eliminated transparency in his operations and allowed Lesson to manipulate the account to overstep his boundaries and limitation, implemented and supervised by Barings regulations.

The 88888 account was used by Lesson to take direct trading positions and exceed his trade limits and concealing his overall net exposures.