

# [Whatever happened at barings](https://assignbuster.com/whatever-happened-at-barings/)

[](https://assignbuster.com/)[Finance](https://assignbuster.com/essay-subjects/finance/)

Whatever Happened at Barings Nick Leeson held the positions of “ chief derivative trader”, “ general manager” and “ derivatives operations manager” at “ Barings Futures Singapore” (BFS) from 1992 up to 1995. In fact, he managed all the operations and activities of BFS (Hughes and MacDonald).   
2. The cumulative loss of Barings amounted to £ 927 million. On the other hand, the capital reported in the balance sheet amounted to £ 440 million, which further reflected that the liquidation cost of the bank was £ 927 million - £ 440 million, i. e. £ 487 million (Hughes and MacDonald).   
3. The systemic damage of the international banking system was not that big to be regarded as significant because Barings was not a big banking organization and its failure could not substantially affect the international banking (Hughes and MacDonald).   
4. “ Big Bang” is a terminology used for the changes in relation to financial regulations, which took place in the late 80s. These changes were primarily related to the operations of the financial institutions and activities of the City of London, deemed as the hub of UK’s financial activities. The crucial deregulatory steps taken for the LSE (London Stock Exchange) initiated some changes. Barings, upon the occurrence of Big Bang, unlike its competitor organizations, did not make efforts to develop a well integrated investment bank (Hughes and MacDonald).   
5. The major problems faced by financial services organizations were fixed commissions, lack of a competitive environment and access to other markets for taking part and operating in other parts of the world. In lieu of these problems, Big Bang was introduced, which liberalized the stock markets, particularly the London Stock Exchange (Hughes and MacDonald).   
6. After this whole story was unwrapped, it became clear that the management lacked the required monitoring strictness in relation to securities; and at times management was seen as confused. These factors contributed in the demise of the firm (Hughes and MacDonald).   
7. There are various strategies used by speculators to trade future contracts and amongst the strategies adopted the most common include “ going long”, “ going short” and “ spreads”. “ Going long” refers to the strategy according to which an investor makes an agreement for buying and delivery at a particular price at the moment when a future price rise is expected. On the other hand, the “ going short” strategy refers to such an agreement by the investor under which he agrees to sell at an early date in order to avoid losses resulting from prices decline that is expected in future. Lastly, “ spreads” refer to the strategy according to which the investor looks for the difference between the prices of a commodity which can be traded under different contracts. It is regarded as less risky than “ going long” and “ going short” strategies (Hughes and MacDonald).   
8. Marginal system is the system under which firms are required to pay portions of money on daily basis to the Clearing Houses for the contracts which values are declining (Hughes and MacDonald).   
9. The futures which Leeson dealt with were as follows:   
Nikkei 225 contract (traded on SIMEX, Singapore)   
Nikkei 225 contract (traded on OSE, Japan)   
JGB contract (traded on SIMEX, Singapore)   
JGB contract (traded on TSE, Japan)   
Euroyen contract (traded on SIMEX, Singapore)   
Euroyen contract (traded on TIFFE, Japan)   
Trading these contracts involved small profits which resulted from buying them at cheap prices and selling them off at relatively higher prices (Hughes and MacDonald).   
10. Riding on the back refers to the situation where risk is shifted from one exchange to another when there is a liquidity issue and the clients require execution of their orders instantly.   
11. Bucketing is the making of profits in short period of time in which orders are confirmed without executing them (Hughes and MacDonald).   
12. In order to manage the flow of funds so as to bear the margin calls from SIMEX, Leeson employed various ways to manipulate the funding and related records. Firstly, Leeson shifted the transactions in Account 88888 from the accounts of Baring Securities Japan and Baring Securities London just 30 seconds before the close of market. This technique allowed Leeson to avoid disclosing that the risk limit was exceeded by making unhedged transactions. Secondly, Leeson also manipulated the records by recording fake transactions between Account 88888 and BSJ and BSL. In this way, he was able to transfer positions which were not hedged from BSL and BSJ accounts to Account 88888 and consequently avoided the reporting of unhedged positions. Lastly, Leeson asked his subordinates to enter fake transactions in the accounting record for transactions. These transactions were then reversed when the market opened on the day following the entries were recorded (Hughes and MacDonald).   
13. The three warning signs were as follows:   
Significantly higher profits while keeping risk at minimum;   
Continuous demand for releasing funds for margin payments by BFS; and   
Substantially long and short positions built by Leeson on SIMEX and TSE respectively (Hughes and MacDonald).   
14. Being a top officer at Barings, I would have:   
Ensured effectiveness of Internal Audit Function;   
Compared the profitability of the business with competitors; and   
Taken appropriate actions on the warnings signs.   
Work Cited   
Hughes, Jane E., and Scott B. MacDonald. International Banking: Text and Cases. Addison Wesley, 2002. Print.