

Rogue French trader faces criminal charges

Societe Generale says man used multiple methods to conceal transactions

AP Associated Press

January 28, 2008

PARIS - A Paris prosecutor on Monday asked for preliminary charges of forgery, breach of trust and fraud against Jerome Kerviel, accused by Societe Generale bank of causing what may be the largest-ever trading fraud by a single person.

Prosecutor Jean-Claude Marin also for the first time gave an inkling of what motivated the low-level trader. He said the 31-year-old did not seek personal profit from the trades, but wanted to be "an exceptional trader" and earn performance bonuses.

"It's always a bit for money, I'm not sure that was his prime motive," said the prosecutor. "It functions a bit like a drug, it's an addiction, ... there's a sort of spiral you can't get out of."

Marin was speaking as police wrapped up nearly 48 hours of questioning with Kerviel. The trader was to appear before a judge who would decide whether to proceed with preliminary charges.

Under French law, filing preliminary charges means the judge has determined there is strong evidence to suggest involvement in a crime. It gives the investigator time to pursue the probe before deciding whether to send the suspect for trial or drop the case.

The prosecutor said Kerviel could face a maximum seven years imprisonment if convicted under the charges he was seeking.

Societe Generale revised downward slightly the amount Kerviel allegedly lost — from 4.9 billion euros (\$7.21 billion) to "just over" 4.82 billion euros (\$7.09 billion). CEO Daniel Bouton said the bank, thought by some to be vulnerable to a takeover, has not been approached.

The bank, however, was struggling. Societe Generale shares were trading down 6.6 percent at 68.98 euros (\$101.43) at midday Monday amid generally falling shares.

Bouton rejected suggestions from Kerviel's lawyers that Societe Generale was making him a scapegoat to hide big losses linked to the U.S. subprime mortgage crisis.

"How could you want to imagine that we would have been able to hide a hole by another hole? It's completely stupid," Bouton told Europe-1 radio. He called Kerviel a "remarkable concealer" who had managed to outwit the bank's risk control systems.

Elisabeth Meyer, one of Kerviel's defense lawyers, said he was "bearing up to the shock."

She disputed Societe Generale claims that he had committed fraud, saying he was in the black with his trades as of Dec. 31.

"In my view, he was thrown to the lions before being able to explain himself," said Meyer. "It's a lynching."

Societe Generale alleges that Kerviel hacked computers and "combined several fraudulent methods" to build up positions worth 50 billion euros (\$73.53 billion) — more than the bank's market worth.

Jean-Pierre Mustier, head of the bank's corporate and investment banking arm, told reporters Sunday that Kerviel appeared to have acted alone, but added: "I cannot guarantee to you 100 percent that there was no complicity."

Even before his allegedly massive fraud was revealed Thursday, Kerviel's trading apparently triggered occasional alarms at Societe Generale — France's second-largest bank — but not to a degree that led managers to investigate further. Kerviel had explained away the red flags as mistakes, according to Mustier.

The bank says Kerviel built up futures positions worth 30 billion euros (\$44.12 billion) into the Eurostoxx index, another 18 billion euros (\$26.47 billion) on Germany's DAX and 2 billion euros on the London FTSE.

Since the bets greatly exceeded the amount of capital he was allowed to risk, Kerviel entered fake and offsetting trades in Societe Generale's computer system that appeared to minimize the odds of big losses, the bank said. The trades were purposely chosen to

avoid detection because they did not require cash contributions nor were subject to margin calls, which would require putting up more money if the fake bet soured, it said.

Societe Generale said Kerviel's positions were unwound last week over three days in a "controlled fashion."

Societe Generale said Kerviel used other people's computer access codes, falsified documents and used other methods to cover his tracks — helped by his previous experience in other bank offices that monitored traders.

Kerviel's downfall started in the days before Friday, Jan. 18, when Societe Generale tightened lending restrictions on one of its customers, an unnamed large bank. He apparently had used that bank's name for one or more of his fictitious trades, and it led to what Societe Generale described as having "additional controls" put in place.

Kerviel's superiors in Societe Generale's equity trading division reviewed that day an e-mail from the large bank supposedly confirming trades he had booked. But they were suspicious about where the e-mail came from and launched an emergency investigation.