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## Poor IT Procedures Enabled Societe Generale Fraud

**Inadequate IT security allowed a trader at French bank Societe Generale to make a series of unauthorized transactions that ultimately cost the bank 4.9 billion euros (US\$7.2 billion), an internal investigation has found.**

To prevent a recurrence, the bank should immediately introduce stronger security systems, including biometric authentication of trading staff, a special committee has recommended in its preliminary report to the bank's board of directors.

Between January 18 and 20, the bank discovered that trader Jerome Kerviel had established trading "positions" – bets that the price of securities and warrants would move in a particular direction – worth more than the bank itself, IDG News Service reported. He bet wrongly, and unwinding those positions over the following three days cost the bank 4.9 billion euros as it sold the stocks into a falling market.

As an arbitrage trader, Kerviel should have been making transactions in pairs, buying and selling similar assets to exploit the minute and fleeting differences in prices that exist in markets. Arbitrage trading is considered less glamorous than the one-way bets he secretly made from time to time by faking one half of a pair of transactions. Kerviel had previously worked in the bank's IT department, and so had in-depth knowledge of its systems and procedures.

Staff mostly followed those procedures, the investigating committee found, but the procedures were not in themselves sufficient to identify the fraud before January 18, partly because of the effort Kerviel made to avoid detection, and partly because staff did not systematically conduct in-depth investigations when warnings flags were raised. Among the tricks Kerviel used to hide his activities, the bank's General Inspection department highlighted the use of fake e-mail messages to justify missing trades, and the borrowing of colleagues' log-in credentials to conduct trades in their name.

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