

Les Misérables

A NOVEL WRITTEN BY VICTOR HUGO? A Broadway musical directed by Cameron Mackintosh? Or a description of the Board of Directors of Société Générale upon learning that one of their traders, Jérôme Kerviel, had run up losses totaling \$7 billion?

You can tell Cameron that I loved the play and Victor that his book was bit too long. As for you, dear Jérôme, I can't decide. I feel bad for you, but don't know if I should be critical of your actions or sympathetic about your trading misadventures.

Your superiors are probably upset. The press has not been kind. And I suppose the fact that some of your countrymen are hailing you as a folk hero and the "Che Guevara of Finance" isn't helping either. But, hey, \$7 billion in losses isn't all that much—if you compare it to the total GNP of France.

Do you know that the *Toronto Sun* said that "you were able to circumvent at least five layers of risk-control systems, matching each of your investments in European stock futures with fictitious ones"? Sounds like some pretty clever manipulation to me, though I don't suppose SocGen's risk manager will be inviting you to his next Bastille Day party.

And did you hear what Nick Leeson told the BBC? "The first thing that shocked me was not necessarily that it had happened again. I think rogue trading is probably a daily occurrence among the financial markets. The thing that really shocked me was the size of it."

You remember Nick, don't you? He was that English fellow who brought Barings Bank to its knees in 1995 by accumulating trading losses of \$1.5 billion. That may seem like chump change compared to what you've done, *mon ami*, but then again, Leeson was only 28 years old when his trades came up "snake eyes."

So when he's shocked, I'm impressed, although perhaps this just proves that

Oscar Wilde was right when he warned, "Society produces rogues, and education makes one rogue cleverer than another."

Poor Nick. He now has to settle for the No. 2 spot on the "World List of Rogue Traders," but he can take solace in knowing that his exploits have already been documented in a book and on the big screen. Did you know that his character was played by Ewan McGregor?

I know that you are being made out to be a bad guy for the size of the losses involved. Indeed, if they had involved lesser sums (a few million dollars, perhaps), we might never have heard of you.

But you decided to go big time, using the bank as your own personal, high-stakes casino, and you chose to sit at the no-limit table. Imagine, one trader placing \$72,000,000,000 worth of bets on the direction of European equity markets! Sacre-bleu! That's the kind of boldness that even Napoleon would have envied.

So, now we do know your name.

I do think, however, there's blame enough to go around here. You shouldn't take all the heat. When it comes to financial markets, the entire culture of more and bigger and faster just pushes men like you to succumb to temptation.

Sure, operational controls are refined to meet smaller and smaller tolerances to

keep those roguish instincts in check. But how can any man resist the lure of those exotic products that continue to push the boundaries of risk—derivatives of every taste and color, structured products that few really understand, and enough leverage to make Mr. Ponzi blush.

It's as if the engineers had designed an automobile with every imaginable safety feature and then dared you to drive it at night, on winding, sleet-covered roads, at 110 mph. Don't they realize that dire consequences are sure to occur?

Before bidding adieu, Jérôme, there are a few questions I'd like to ask, if you have the time:

- › Could you have doubled or tripled your bets if you had had more time?
- › Who won what you (and SocGen) lost? And why won't they give it back?
- › What would have happened if you had guessed correctly on the direction of the markets and increased SocGen's value by \$7 billion? Would they now be calling you the Warren Buffett of French finance?
- › Did you give Martha Stewart any advance warning of your trades?

Take heart, my friend. The days ahead may be difficult, but think of the opportunities that the future holds: a book advance; a motion picture contract; speaking engagements at risk-management meetings around the world; even some delicious petits fours from Martha's kitchen.

And if the authorities press you too hard, just say it was the steady diet of Jerry Lewis' movies that you had to endure as a child that made you do it. The French courts might not sympathize, but the rest of us surely will. ●



Jérôme Kerviel

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