Former Société Générale trader had big bets in place as early as July
Nicola Clark

A view of the trading center of the French bank Société Générale in the La Défense business district, near Paris. (Benoit Tessier/Reuters)

As Société Générale prepared Wednesday to release the findings of its inquiry into billions of euros of unauthorized bets the bank said were made by a former trader, Jérôme Kerviel, new details about the scope and timing of his actions showed that he exposed the bank to another significant trading loss in July.

According to a French court document obtained by the International Herald Tribune, Kerviel exposed Société Générale to a trading loss of €2.156 billion as of July 31, and a potential profit of €500 million a month later, on Aug. 31.

Société Générale has so far only revealed details of Kerviel's profits and losses dating back to Dec. 31. The bank has said it booked €1.4 billion, or $2.1 billion, in profit in the fourth quarter from his unauthorized trades, and lost €4.82 billion in January unwinding his bets.

Melody Jeannin, a Société Générale spokeswoman, declined to comment on any gains or losses linked to Kerviel's trading positions beyond what the bank has already publicly disclosed. She also would not say whether the discovery of the trading losses and gains for July and August might lead the bank to restate its financial results for the third quarter.

The document also shed more light on how the bank said Kerviel tripped up after a long period of successfully hiding unauthorized trades. On Dec. 12, he entered eight large transactions into the bank's computers, consisting of four purchases of unspecified financial instruments, and four sales, the document said. It was the eventual unwinding of these eight operations from Jan. 21 to Jan. 23 that led to the €4.82 billion loss announced last month.
The timeline indicates that Kerviel continued to place new unauthorized bets after his supervisors were alerted of communications between Eurex, the German bourse, and Société Générale's compliance department between Nov. 7 and Dec. 10 over questions the exchange had raised about Kerviel's trading activities dating back several months.

French investigators are preparing to question more of Kerviel's supervisors in connection with the inquiry. A broker who frequently cleared Kerviel's trades, Moussa Bakir, was recently questioned and released by the financial police amid evidence suggesting he was aware of at least some of Kerviel's activities. On Tuesday, the bank also confirmed that investigators were

looking into the existence of a possible second broker, referred to in messages by Kerviel and Bakir as "Mat."

The disclosures of Kerviel's positions appear in a written summary from Feb. 8 of evidence that Paris appeals court judges used to justify placing Kerviel in pretrial custody while the investigation continued.

It comes as Jean-Martin Folz, an independent director named Jan. 31 to head a crisis surveillance committee at the bank, prepared to release a report Wednesday identifying lapses in the bank's control or reporting procedures that enabled Kerviel to secretly expose the bank to €50 billion worth of risk.

"Jérôme Kerviel was not supposed to be taking any open positions," said Jean Dermine, a specialist in asset and liability management at Insead, a leading French business school, referring to the former trader's role as an arbitrageur, which did not allow him to place large "open" or speculative bets. "So the big question is, why was there not a process in place to make sure that every trade being entered into the bank's computers was real and not fake?"

"It seems like this is a pretty basic question, to which we have not yet heard a convincing answer," Dermine said.

Risk management experts said the futures markets where Kerviel was active were extremely liquid, resulting in daily trading volumes valued in the hundreds of billions of dollars. This allows individual traders to assume very large positions without drawing much attention. Still, a loss of the size that was on Kerviel's trading book in July would have been unlikely to escape notice in Société Générale's back office, they said.

"Large losses would have implied very large margin calls, which the bank would have had to cover in cash," Dermine said.

Jean-Pierre Mustier, chief executive of Société Générale's investment banking division, did not return calls seeking comment. Mustier told reporters on Jan. 27 that a review of Kerviel's trading records by the bank's auditors showed the trader began creating fictitious hedges for his speculative trades in late 2006 and early 2007, but that these transactions were relatively small.

The fake trading increased in frequency, and in size, during the course of last year, he said, but the largest operations were not discovered until Jan. 18, Kerviel's last day at the bank before he was fired.

Mustier and two other Société Générale executives ensnared in the Kerviel affair are also expected to come under the spotlight Wednesday at a trial in Paris, which is to look into a six-year-old case being brought against the bank by a former trader at its U.S. subsidiary, SG Cowen.

The employee, Guillaume Pollet, was fired in 2001 after he was found to have traded on insider information and to have produced false documentation to help cover his tracks. Pollet - who was found guilty in a New York court and spent 11 months in jail - claims that his superiors, including Mustier, and the co-heads of equities and derivatives trading Luc François and Christophe Mianné, were aware of his actions and in some cases even ordered him to execute the illegal trades.

Meanwhile, the French daily Le Parisien reported that numerous instant-message communications between Kerviel and Bakir made reference to a London-based broker known simply as "Mat." The newspaper said investigators had been unable to locate Mat and that it was possible Mat was an invention, rather than a real person.

Isabelle Montagne, a spokeswoman for the Paris prosecutor's office, said that at this stage of the investigation, it was impossible to say whether this person existed.

The slow drip of new details about Kerviel's prior trading activity is likely to add to the pressure on Daniel Bouton, the chief executive of the bank, who has twice offered to resign to take responsibility for the scandal. Bouton is expected to step down eventually, though bankers said the board was unlikely to seek his departure before completion of the €5.5 billion offer of new shares to investors, which began last week.

"They won't accept it at this stage of the game, because they want the capital increase to succeed," said Yves-Marie Laulan, a retired Société Générale executive in charge of risk management. "But in six months to a year, when public interest in the case has subsided, he will probably find a way to leave discreetly."

Société Générale shareholders will have an opportunity to signal their confidence in Bouton's management team beginning Thursday, the start of an eight-day window in which they can trade their preferential rights to the discounted shares the bank offered last week - part of an effort to shore up its finances and fend off any opportunistic takeover bid.

BNP Paribas, which is to present its 2007 full-year results Wednesday, has said it is considering a friendly offer for Société Générale, which is presenting its definitive 2007 results Thursday.

While Société Générale has already reported a net profit for the year of €947 million, investors will be looking closely at the breakdown of earnings among its various divisions, particularly Mustier's investment banking arm, the epicenter of the Kerviel affair.

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