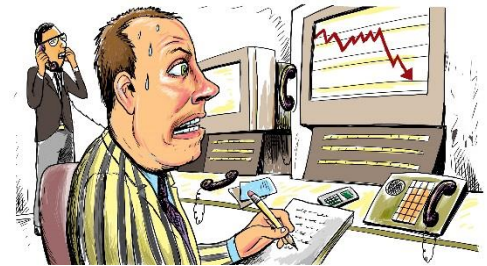


## ***The Collapse of Barings Bank***

Founded in 1762, Barings Bank was a United Kingdom institution with worldwide reach. Even the Queen of England had an account there. In 1989, Nick Leeson was hired at Barings, where he prospered. He was quickly promoted to the trading floor and appointed manager in Singapore where he traded on the Singapore International Monetary Exchange (SIMEX). Leeson was an aggressive trader, making large profits in speculative trading. In 1993, his profits constituted almost 10% of Barings' total profits. He had developed a reputation for expertise, for near-infallibility, and his superiors in London gave him little supervision.

In July 1992, a new Barings employee suffered a small loss on Leeson's watch. Leeson did not wish to lose his reputation for infallibility, or his job, so he hid the loss in an error account. Leeson attempted to make back the loss through speculative trading, but this led to even bigger losses, which again were hidden in this account. He kept doubling up his bets in an attempt to get out from under the losses. Leeson later said: "[I] wanted to shout from the rooftops...this is what the situation is, there are massive losses, I want to stop. But for some reason you're unable to do it. ... I had this catastrophic secret which was burning up inside me—yet...I simply couldn't open my mouth and say, 'I've lost millions and millions of pounds.'"

Leeson took out a short-term, highly leveraged bet on the Nikkei index in Japan. At the same time, a severe earthquake in Kobe, Japan sent the index plummeting, and his loss was so huge that he could no longer hide it. Barings, a 233-year old bank, collapsed overnight and was bought by ING for £1. Leeson fled to Malaysia, Thailand, and finally to Germany, where he was arrested and extradited to Singapore. He plead guilty to two counts of deceiving bank auditors (including forging documents) and cheating the SIMEX. Leeson was sentenced to six and a half years of prison in Singapore, but only served four years due a diagnosis of colon cancer, which he ultimately survived.



### **Discussion Questions:**

1. How was loss aversion apparent in Nick Leeson's conduct? Explain.
2. Judith Rawnsley, who worked for Barings Bank and later wrote a book about the Leeson case, proffered three explanations for Leeson's behavior once the losses had started to pile up: 1) Leeson's loss aversion stemmed from his fear of failure and humiliation; 2) his ego and greed were exacerbated by the macho trading environment in which he operated; 3) he suffered from common distortions in thinking patterns that often result from high levels of stress, including overconfidence and denial. Which of these explanations (or all) do you think played a role in this case? Why?

3. Leeson explains that he wanted to stop, but could not. Based on his and Rawnsley's reflections, where do you think the blame primarily lies and why? With Leeson individually, or with the system within which he operated?
4. If you were in Leeson's position after the initial loss made by the employee, what would you have done? Why?
5. Do you have trouble owning up to mistakes that you have made? Do others whom you know? Explain with examples.

**Resources:**

How Will You Measure Your Life?

<http://www.worldcat.org/title/how-will-you-measure-your-life/oclc/757483347>

*The Collapse of Barings*

<http://www.worldcat.org/title/collapse-of-barings/oclc/35658104>

Cheating and Loss Aversion: Do People Lie More to Avoid a Loss

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2502819](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2502819)

*Rogue Trader: How I Brought Down Barings Bank and Shook the Financial World*

<http://www.worldcat.org/title/rogue-trader-how-i-brought-down-barings-bank-and-shook-the-financial-world/oclc/34262021>

How Nick Leeson Caused the Collapse of Barings Bank

<http://www.next-finance.net/How-Nick-Leeson-caused-the>

*Total Risk: Nick Leeson and the Fall of Barings Bank*

<http://www.worldcat.org/title/total-risk-nick-leeson-and-the-fall-of-barings-bank/oclc/33275953>

Eat What You Kill: The Fall of a Wall Street Lawyer

<http://www.worldcat.org/title/eat-what-you-kill-the-fall-of-a-wall-street-lawyer/oclc/649743120>

Barings Collapse at 20: How Rogue Trader Nick Leeson Broke the Bank

<https://www.theguardian.com/business/from-the-archive-blog/2015/feb/24/nick-leeson-barings-bank-1995-20-archive>

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