

Conduct Rules Scenarios

Star Trader Covers Up Losses

Scenario

You are a compliance officer working for Trusty Broker Ltd.

Mick Freeson is a trader in the equities division, working out of the Singapore office. Mick has been classified as a “Material Risk Taker”. For a long time, Mick has been regarded as a star performer – ostensibly generating huge profits for the firm.

However, the truth of the situation has now come to light. In reality, Mick had been incurring significant losses on proprietary positions and ‘hiding’ them in a secret “5 sevens” account. He has also produced confirmations for a number of fictitious trades in order to cover his tracks.

The Product Control and Compliance departments had no knowledge of the “5 sevens” account or the fictitious trading activity. How Mick managed to do this without Product Control and Compliance becoming aware is not yet known.

Ron Laker, Mick Freeson’s boss and the Senior Manager in charge of the equities division was also completely unaware of the losses that Mick Freeson had been accumulating. A later investigation would uncover the fact that Mick Freeson had been allowed to both enter into, and settle, his own trades – effectively occupying both a front- and a back-office position within Trusty Broker Ltd.

What conduct rules may have been breached? Why?

How should the firm respond?

What controls could have been implemented?