

Front Office Trading: I Want to See the Positions!

Barry J. Minkow, Federal Medical Center, Lexington, KY
Joseph T. Kastantin, University of Wisconsin La Crosse
Katherine R. Rick, University of Wisconsin La Crosse

SYNOPSIS

J.P. Morgan Chase & Co. Chairman and Chief Executive Officer James Dimon faced many crucial management decisions based on the revelation during his April 30, 2012 conference with his senior management team about certain out-of-control trading positions created by trader Bruno Iksil. Mr. Iksil's trading positions were not being monitored by the internal control system. The initial estimate of losses on those trading positions was at least \$2 billion but later escalated to at least \$6 billion. Mr. Dimon was frantic. He knew that he and his senior management team must analyze the facts surrounding the loss positions and disclose and characterize those facts in a way that would cause the least damage to the bank's reputation and his personal reputation. This is a descriptive case.

LEARNING OBJECTIVES

The objectives of this case are:

1. Discuss the issues that are likely to influence how unexpected trading losses might be disclosed and characterized to shareholders, bank regulators, and the financial media.
2. Evaluate internal controls and segregation of duties for bank trading and monitoring of trading operations in order to identify irregularities, especially those requiring human decisions and other human interventions.
3. Opine on how a failure in internal controls over bank trading activities could result in criminal fraud charges versus resulting in other administrative actions.
4. Analyze the course of action taken by Mr. Dimon in disclosing and characterizing the losses arising from the out-of-control trading positions.

APPLICATION

The nature of this case study would limit its applicability to a fairly high level in business education. The case could be used at the undergraduate level in banking, finance, or in strategic management (focusing on the entity's responsibility for maintaining effective internal controls over trading activities). The case may also be appropriate for the continuing education of certified public accountants and certified internal auditors. The case study could also be used in a graduate level finance or banking course.

KEY WORDS

Front office, trading fraud, banking

CONTACT

Joseph T. Kastantin, University of Wisconsin – La Crosse, 1725 State Street, La Crosse, WI 54601, 608-787-8983 (voice), 608-785-8549 (fax), jkastantin@uwlax.edu